PURE TRUST

CANADIAN OIL SANDS TRUST ANNUAL REPORT 2005

ADVISORY- in the interest of providing Unitholders and potential investors of Canadian Oil Sands Trust (the "Trust" or "Canadian Oil Sands") with information regarding the Trust, including management's assessment of the Trust's future production and cost estimates, plans and operations, certain statements throughout this annual report contain "forward-looking statements" under applicable securities law. Forward-looking statements in this annual report include, but are not limited to, statements with respect to: the expected growth opportunities that the Trust had through its expansion of the current interest in Syncrude or through external opportunities; the anticipated cost, completion, and start-up date for Stage 3; the expectation that crude oil prices will remain high and that this will result in higher funds from operations which may be used for distribution payments; the extent and value of Syncrude's reserves and resources; the quality of Syncrude's leases and bitumen in place in those leases; the ability to improve the base operations at Syncrude; future increases in any distributions; the ability to mitigate and prevent operational risks such as dyke failures, explosions in upgrading units or other similar events; the estimated costs relating to asset retirement obligations; the view that Stage 3 will increase production and sales, thereby increasing free cash flow; the timing regarding reaching the Trust's net debt target; the need for future hedging; the return achieved from sales of Syncrude Sweet Premium; the expected price for crude oil and natural gas in 2006; the expected reduction in sulphur emissions from the Syncrude emission reduction project; the actual taxes paid in the future by Canadian Oil Sands; the expected production level at Syncrude in 2006; the expected timing and associated production impact of coker and other unit turnarounds; the expected revenues, operating costs and funds from operations for 2006; the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Trust's funds from operations and net income; and the expected capital expenditures in 2006 and beyond. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: labour shortages and the productivity achieved from labour in the Fort McMurray area; the impact of technology on operations and processes and how new complex technology may not perform as expected; the supply and demand metrics for oil and natural gas; general economic, business and market conditions; regulatory changes; and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust, including those outlined in the management's discussion and analysis in this annual report and the assumptions outlined in the guidance for 2006 being true. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this annual report are made as of the date of this annual report, and the Trust does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement. **Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to "dollars" or "$" are to Canadian dollars and all references to "US$" are to United States dollars.**

NON-GAAP FINANCIAL MEASURES

In this annual report, we refer to net income before unrealized foreign exchange and future income taxes. This is a measurement that is not defined by Canadian generally accepted accounting principles ("GAAP"). The Trust also reports funds from operations and free cash flow on both a total and per Unit basis, which are measures that do not have any standardized meaning under Canadian GAAP. Funds from operations is calculated on the Trust's consolidated statement of cash flows as cash from operating activities before changes in working capital. Free cash flow is calculated as funds from operations less capital expenditures and reclamation trust contributions in the period. In the opinion of Canadian Oil Sands' management, funds from operations is a key performance indicator of the Trust's ability to generate cash to fund capital expenditures, while free cash flow is a key indicator of the Trust's ability to repay debt and pay distributions. The net income before unrealized foreign exchange and future income taxes, the Trust's funds from operations and free cash flow may not be directly comparable to similar measures presented by other companies or trusts.

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CANADIAN OIL SANDS TRUST provides a pure investment opportunity in the Alberta oil sands, while our trust structure allows us to distribute free cash flow on a tax-efficient basis to our Unitholders. We are an open-ended investment trust that trades on the Toronto Stock Exchange under the symbol COS.UN. Canadian Oil Sands' 35.49 per cent working interest in the Syncrude project is currently our only business and sole focus.

Syncrude has a history of successful operations and a future that is based on a 35-year proven and probable reserve life at post Stage 3 capacity.

THE RECENT STAGE 3 PROJECT IS EXPECTED TO EXPAND PRODUCTIVE CAPACITY of a premium quality crude oil from about 250,000 to 350,000 barrels per day gross to Syncrude when the project is completed in mid-2006.

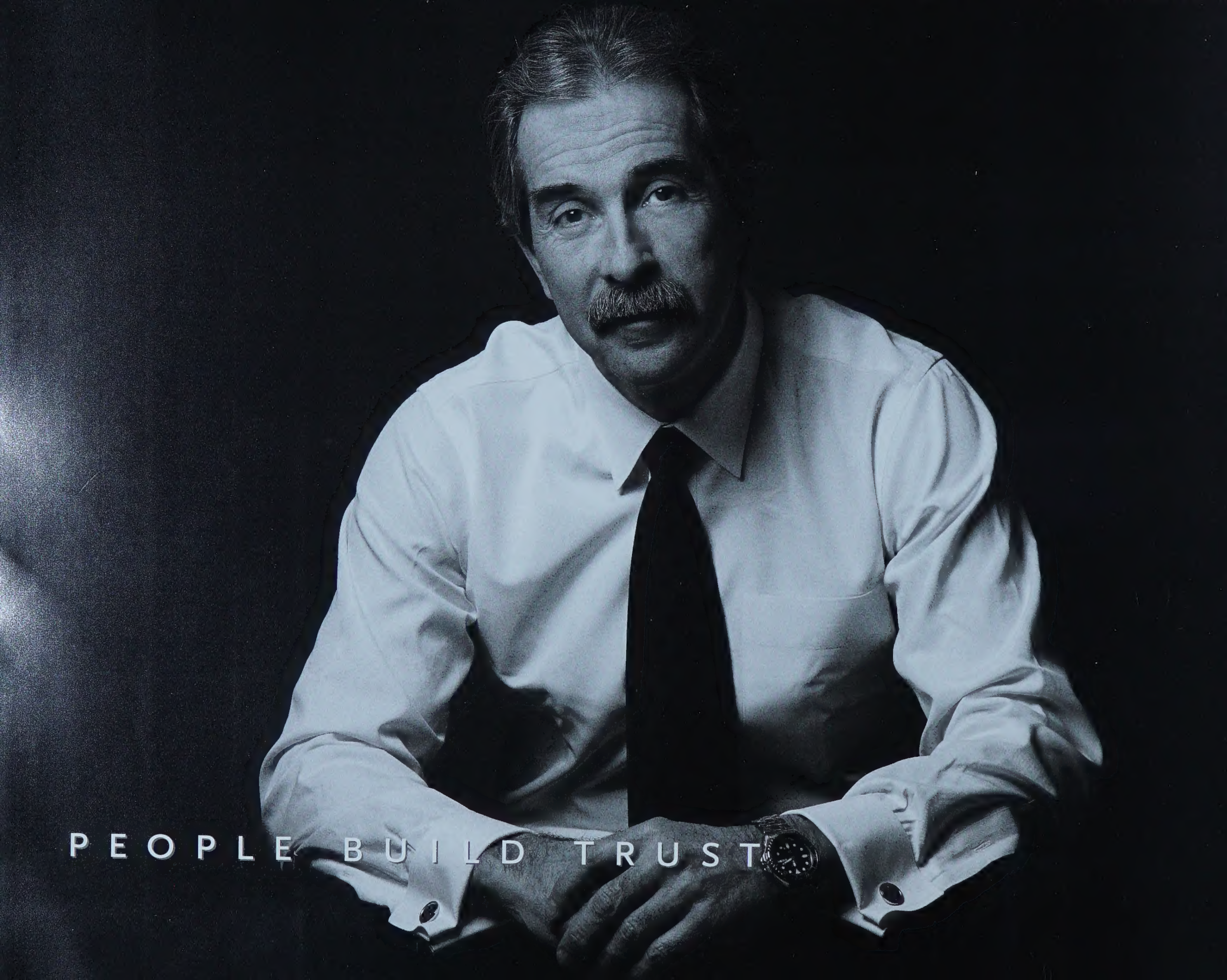
THE SYNCRUDE PROJECT is a joint venture undertaking among Canadian Oil Sands (35.49 per cent), Imperial Oil (25 per cent), Petro-Canada (12 per cent), Conoco Phillips (9.03 per cent), Nexen (7.23 per cent), Murphy Oil (5 per cent), and Mocal Energy (5 per cent). On behalf of these participants, Syncrude Canada Ltd. operates and administers the project, which encompasses oil sands mines, utilities plants, bitumen extraction plants, and an upgrading complex that processes bitumen into a light, sweet, synthetic crude oil.

PURE TRUST

HIGHLIGHTS

	2005	2004	% change
FINANCIAL ($ millions, except per Unit amounts)			
Revenues, after transportation and marketing expense	1,967	1,352	45
Per Unit	21.40	15.18	41
Net income	831	509	63
Per Unit - basic	9.04	5.72	58
Per Unit - diluted	9.01	5.72	58
Funds from operations	1,005	576	74
Per Unit	10.93	6.47	69
Unitholder distributions	184	180	2
Per Unit	2.00	2.00	–
RATIOS			
Net debt to total capital (%)	33	39	-15
Return on average Unitholders' equity (%)	28	21	33
Return on average productive capital employed (%)	37	21	76
Return on average capital employed (%)	19	13	46
OPERATIONS			
Syncrude Sweet Blend sales volumes			
Total (millions of bbls)	27.7	31.0	-11
Daily average (bbls)	75,994	84,575	-10
Operating costs ($/bbl)	26.34	19.40	36
Capital expenditures ($ millions)	800	942	-15
Average selling price ($/bbl, after hedging)	70.91	43.68	62
West Texas Intermediate ($U.S./bbl)	56.70	41.47	37
Average foreign exchange rate ($U.S./$Cdn)	0.83	0.77	8
UNIT INFORMATION			
Closing price on December 31 ($/Unit)	126.00	67.61	86
Weighted-average Trust units (millions)	91.9	89.0	3

PEOPLE TRUST PERFORMANCE


PEOPLE BUILD TRUST

CANADA'S OIL SANDS ARE RISING IN PROMINENCE AS APPRECIATION FOR THE IMPORTANCE OF THIS RESOURCE TO GLOBAL CRUDE OIL MARKETS GROWS. SYNCRUDE IS IDEALLY POSITIONED TO BENEFIT FROM OIL SANDS DEVELOPMENT WITH SOME OF THE VERY BEST LEASES IN THE ATHABASCA OIL SANDS DEPOSIT, INFRASTRUCTURE IN PLACE TO DEVELOP THE RESOURCE, AND NEARLY THREE DECADES OF OPERATING EXPERIENCE.

AT LEFT:
Marcel R. Coutu
President and Chief Executive Officer

PRESIDENT'S MESSAGE

The past year was another rewarding one for our investors. We exited the year with a price of $126 per Unit, almost double our closing price of 2004, and we doubled our quarterly distribution from $0.50 per Unit to $1.00 in October 2005. The result was a total return to our Unitholders of 91 per cent in 2005.

This is indeed terrific performance, much of it derived from unhedged oil prices. Looking forward, I believe we have an exciting and prosperous future based on our business and the market; in particular:

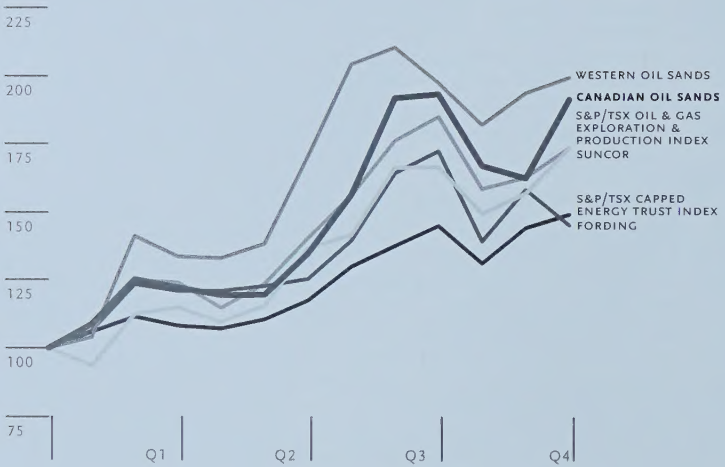
- Syncrude is completing its Stage 3 expansion – the largest in its 27-year history – and approximately 100,000 barrels per day of incremental productive capacity, gross to Syncrude, is expected in a few short months. With this expansion, Canadian Oil Sands is positioned to generate substantial free cash flow going forward, supporting our ability to grow distributions and our business.
- Crude oil prices continue to be very robust, and the fundamentals of growing demand against a finite, non-renewable global supply support strong prices in the future. We produce a high-quality, light crude oil and our production is entirely unhedged, offering undiluted exposure to crude oil prices. The quality of our product also means we are not directly exposed to heavy or sour crude oil price differentials.
- Canada's oil sands are seen as increasingly important to global crude oil markets. As oil sands development progresses, Syncrude is ideally positioned to benefit with some of the very best leases in the Athabasca oil sands deposit, infrastructure in place to produce the resource and nearly three decades of operating experience.

2005 financial and operating results

Robust crude oil prices drove stellar financial results for the Trust in 2005. We generated more than $1 billion in funds from operations, or $10.93 per Unit – 69 per cent higher than 2004. The price we received for our Syncrude Sweet Blend™ ("SSB") product closely tracked the West Texas Intermediate ("WTI") benchmark price for crude oil, which averaged US$56.70 per barrel in 2005. We benefited fully from this market price as all of our 2005 production was unhedged. Operating performance, however, did not meet our original expectations. Production in 2005 was down 10 per cent over 2004, averaging about 76,000 barrels per day, or 214,000 barrels per day gross to Syncrude. In 2005, Syncrude conducted an extensive maintenance program, including the turnaround of Coker 8-2 and tie-in and revamp work associated with the Stage 3 project, whereas no coker turnaround occurred in 2004 and steady operations led to record production in that year.

For 2006, we expect our share of Syncrude production to range from 34 to 39 million barrels with a single point estimate of 35.5 million barrels, or about 97,200 barrels per day. We anticipate funds from operations to total $10.42 per Unit based on an average crude oil price of US$55 per barrel WTI and a foreign exchange rate of $0.85 U.S./Cdn. Full details on our 2006 guidance is available on our website and updated at least quarterly.

TOTAL UNITHOLDER RETURNS 2005



CANADIAN OIL SANDS BENCHMARKS ITS TOTAL ANNUAL RETURN PERFORMANCE TO THREE OTHER MINING COMPANIES, two of which operate in the oil sands sector, and two market indices. Our total return in 2005 was 91 per cent and since 1996, our average annual return was 33 per cent.

Stage 3 production to begin mid-2006

Our 2006 outlook includes production from our Stage 3 project, which is scheduled to come on-stream mid-year. Stage 3 is one of the largest and most complicated mega-projects in the world, and I congratulate Syncrude on the completion of construction. Syncrude has delivered infrastructure that will leverage our resource base for decades to come, increasing productive capacity from roughly 250,000 to 350,000 barrels per day, gross to the project. This was a challenging project that took several years to complete and we look forward to reaping the rewards of this investment. Syncrude also should be commended for maintaining a world-class safety record throughout the construction.

Our track record of meeting objectives

The Stage 3 project has framed much of Canadian Oil Sands' strategy since the project was approved in 2001. As many investors will recall, we reduced the quarterly distribution from $0.75 per Unit to $0.50 in 2001 because we felt we could maintain the lower level while we funded this large, multi-year capital program. Our other objectives were to preserve an investment grade credit rating and to minimize Unitholder dilution. I am pleased that we have delivered on all of those objectives. We maintained the $0.50 per Unit distribution, raising it to $1.00 once the end of the project was in sight and the significant financial requirements were behind us. We preserved our investment grade credit rating, even as we increased debt to help fund the expansion. And finally, we issued only $144 million of new equity, excluding our distribution reinvestment plan, minimizing dilution of our historic Unitholders.

The Trust's future objectives

With the construction and financing of Stage 3 largely behind us, our focus is on the following objectives:

(1) Successfully bring the Stage 3 expansion on-line and achieve full design capacity as quickly as possible

We are on track for Stage 3 production to come on-stream by mid-2006. There will be a period of fine-tuning the new equipment during which production rates may fluctuate but ultimately should average 350,000 barrels per day gross to Syncrude. This average production rate includes outages for turnarounds and maintenance and as such, production will at times fall below the average while at other times exceed it. Given that all Stage 3 units are anticipated to be operating and there is no major turnaround work planned following the turnaround of Coker 8-1 in the first quarter, production should exceed this daily average at various times during the second half of 2006.

(2) Improve the reliability and performance of our operations

Syncrude has historically demonstrated an ability to increase production and reduce operating costs. Unfortunately, over the past few years this trend has not been maintained; a fact I attribute to the challenges of undertaking a massive expansion project within an existing operating facility and the impact of inflationary pressures on our industry. We feel there is opportunity to improve Syncrude's reliability and operating performance with the conclusion of Stage 3 construction. The key will be to maximize production from all facilities as that optimizes the efficiency of our plant, commodity inputs and our employees. To that end, Syncrude is implementing leading-edge reliability and maintenance technologies, and using global benchmarking to identify specific areas of improvement to reduce operating costs and increase production volumes.

(3) Continue to broaden our active role in the stewardship of our Syncrude asset

In September 2005, we appointed Trevor Roberts as Chief Operations Officer. Mr. Roberts has extensive oil sands experience and joins me as a second representative on Syncrude's Management Committee, the key body providing direction on Syncrude's strategic growth and operations.

Canadian Oil Sands also has embarked on a new initiative to begin marketing our Syncrude production, which was previously done under contract by EnCana Corporation. The aim is to continue maximizing the price we receive, to explore alternative markets for our product, and to gain more knowledge about crude oil markets, particularly as they may relate to possible new business opportunities.

(4) Strengthen our balance sheet

We have set a target to reduce our net debt to about $1.2 billion, which should provide us with long-term cash flow coverage of at least two times, even if crude oil prices were to drop to US$30 per barrel. A strong balance sheet will support us in pursuing growth opportunities and in maintaining an unhedged crude oil position. Our current intention is to remain unhedged unless we are in a period of high capital expenditures or financing an acquisition, two situations which have occurred in our recent past.

(5) Pursue our growth strategies

We have an enviable opportunity to grow, both internally through Syncrude and through opportunities beyond our Syncrude interest as well.

Syncrude continues to plan to undertake two additional expansion projects designed to take productive capacity to over 500,000 barrels per day. The first project – known as the Stage 3 debottleneck – will pinpoint existing systems and components with underutilized capacity to optimize plant performance. For example, the most expensive component in the Stage 3 Expansion – Coker 8-3 – was constructed with extra capacity of about 30 per cent, which can be accessed as part of the de-bottleneck process. After the major investment in Stage 3, the debottleneck project should be much smaller in scale, more manageable to execute and deliver more robust economics. The next major expansion – Stage 4 – isn't slated to begin until the middle of the next decade, providing us ample opportunity to evaluate the execution strategy. Both stages are pending engineering design and approval by Syncrude's owners, and accordingly, we do not yet have defined cost estimates or schedules.

We believe Syncrude's assets represent the best in the industry and would consider increasing our interest in the project, assuming the terms are attractive to our Unitholders. Additionally, we continue to evaluate oil sands-related acquisition opportunities to provide growth outside of our Syncrude interest; however, we have not yet identified any opportunities that we believe would have added value to our Unitholders.

(6) Grow cash distributions

Given the long-life of Syncrude's reserves and our investment in the recent Stage 3 expansion, we have the potential to generate substantial free cash flow for decades to come. We intend to approach full payout of our free cash flow – operating cash flow less capital expenditures and our reclamation trust contributions – once our net debt target of about $1.2 billion is within reach. We also will continue to manage our cash flow and look for other growth opportunities that enhance value to our Unitholders.

(7) Continue to represent Canada's trust sector

During 2005 we worked through the Canadian Association of Income Funds to help the Federal Government understand the important role of trusts in the Canadian economy. It was our position that trusts provide investors with tax-effective income, encourage more disciplined capital management and contribute to the country's productivity and growth. We appreciate the Government's consultation process that allowed us to share our views and are pleased with their decision to not change taxation of trusts. We continue to express to the Government the need to remove any limitation on foreign ownership as we believe these restrictions hamper access to global capital markets and thereby curtail growth.

Operating environment

I am very encouraged by our business environment. Crude oil prices remain robust and, are likely to remain so, based on the forward curve as of February 22, 2006 and given the tight global supply and demand balance of this non-renewable resource. This view also is supported by the United States' Energy Information Administration which indicated in late 2005 that current investment was insufficient to bring on new supply fast enough to meet rising demand. The

ABOUT 6,500 HIGHLY SKILLED CONTRACTOR PERSONNEL AND 25 MILLION FIELD LABOUR HOURS WERE REQUIRED TO COMPLETE CONSTRUCTION OF SYNCRUDE'S STAGE 3 UPGRADER EXPANSION.

world currently consumes about 87 million barrels of crude oil per day and some are predicting demand will grow to more than 100 million barrels per day by 2015.

Many of the world's producing nations are experiencing natural declines in their production and are challenged to find new reserves. The world must replace annual reservoir declines, estimated at two per cent to eight per cent, before they can actually add to net global capacity. New discoveries are typically smaller, often in more remote and less stable regions of the world, and increasingly more costly to find and produce. Despite efforts and higher crude prices to encourage investment, the world is failing to demonstrate its ability to grow supply beyond nominal levels.

Canada's oil sands are unique in the world in their ability to provide significant, definable production growth with virtually no decline. Economically recoverable oil reserves are estimated at 175 billion barrels with today's technology. Production from the oil sands is expected to climb to 2.7 million barrels per day by 2015. Given this is a long-term, secure source of energy, Canada will easily remain self-sufficient and is likely to continue to be the largest single source of crude oil supply to the U.S., albeit we satisfy only a fraction of the approximately 21 million barrels of crude oil a day that our neighbour currently consumes.

While the resource is massive, producing from the oil sands is challenging. Compared to the conventional sector, oil sands projects tend to have higher operating costs and initially require large capital costs with long lead times. Once the initial investment has been made, however, oil sands projects have the potential to generate significant cash flow for an extended horizon, making their long-term economics attractive, particularly in the current price environment. As a result, development of Canada's oil sands is rapidly expanding. The intense growth of the sector is putting pressure on infrastructure and labour demands in the Wood Buffalo area, and I believe this will create difficulties for companies in managing costs and schedules for projects in the works.

Our Stage 3 expansion has had its own cost overrun and completion delays to contend with. Fortunately, the risks of executing this large capital project are now largely behind us and under today's crude oil prices, the economics are robust. Indicative of the Syncrude operation's profitability, we expect to begin paying higher Crown royalties in 2006. The Alberta Government's royalty regime was structured to help Syncrude and others pursue growth plans. Now that we have recovered our investment, royalties will increase to 25 per cent of net cash flow. Canadians as a whole also benefit enormously from oil sands activity as the Federal Government receives 41 per cent of the total taxes paid related to this activity, according to the Canadian Energy Research Institute.

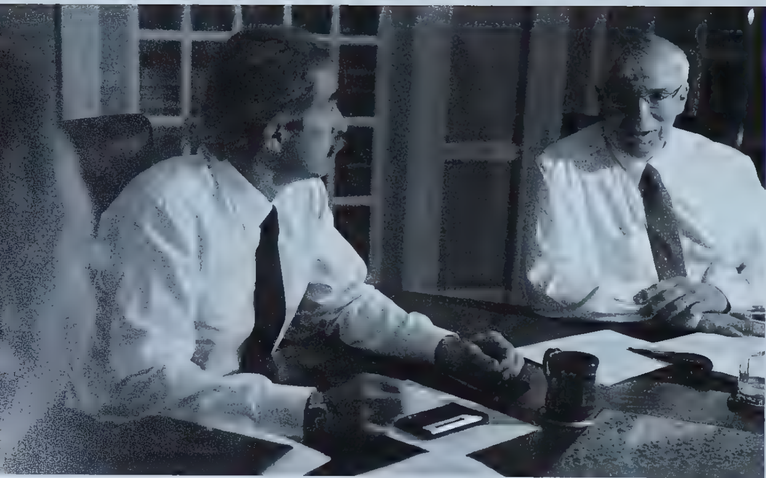
I'm very proud of what has been achieved to date for our Unitholders. We have an investment in a world-class project with a strong track record and outstanding prospects for the future. Syncrude is one of the most established operators in the region, having been in continuous production for 27 years. Our exceptional resource base totals about nine billion barrels of Syncrude Sweet Blend™, equivalent to three billion barrels net to the Trust. When that supply has been exhausted – over 50 years from now – our Mildred Lake facility has the potential to operate as a regional upgrader for the industry.

The challenges of the last few years have demonstrated the capability and the commitment of the people working at Canadian Oil Sands and Syncrude Canada. I also appreciate the support and guidance of our Board of Directors, which was ranked number one in corporate governance among Canadian trusts by Report on Business in 2005.

I believe Canadian Oil Sands' long-term value potential remains unsurpassed and we look forward to continuing to work with the joint venture partners and with Syncrude Canada to optimize the outstanding resource opportunities that our project provides. I would like to thank our joint venture partners for their expertise and ongoing cooperation and, to the thousands of Syncrude Canada employees and contractors who have made this latest expansion a reality, a sincere thank you for your dedication and hard work.

On behalf of the Board of Directors,

Marcel R. Coutu
President and Chief Executive Officer
February 22, 2006



TEAMWORK

CANADIAN OIL SANDS IS A RELATIVELY SMALL ORGANIZATION WITH AN IMPORTANT MANDATE. A TOTAL OF 14 STAFF MARSHAL THE LARGEST AND ONLY PURE PUBLIC INVESTMENT VEHICLE IN SYNCRUDE, THE LARGEST OIL SANDS PROJECT IN THE WORLD.

With a small, focused and diverse management team, Canadian Oil Sands stewards the financial interests of the Trust and provides strategic planning advice and operational guidance to Syncrude. With its more than 4,000 employees, Syncrude Canada manages the day-to-day oil sands operations. In early January 2006, seven key members of the Canadian Oil Sands management team discussed the current status of the Syncrude project, opportunities for the future and their strategies for meeting Unitholder expectations. Here are excerpts from their conversation.

On the Stage 3 expansion project

The Stage 3 expansion was mechanically completed early in 2006. We are now into commissioning the remaining units and are on track for increased production to begin by mid-year. Nearly 70 per cent of the units have been turned over to operations. Of those process plants already started up, some in 2005 and others earlier in 2006, we are pleased with the operational results to date.

Stage 3 is expected to increase Syncrude's productive capacity to 350,000 barrels per day, which reflects an average production rate that incorporates outages for turnarounds and maintenance. We anticipate a period of optimizing and refining the various Stage 3 units and processes during which time production may fluctuate. Nonetheless, with no major turnarounds scheduled for the last half of 2006, we should be able to achieve these rates and even exceed them at times. On a steady state basis, we think we should be able to achieve 90 per cent of productive capacity within the first year of operations; accordingly, we are anticipating a 2006 exit production rate of 315,000 barrels per day for Syncrude. During 2007, Syncrude should be able to demonstrate design capacity rates averaging 350,000 barrels per day for sustainable periods.

On the forward strategy

The plan for continued growth at Syncrude is already in place. There are two more stages of expansion that are planned to take place on the heels of one another and extend into the end of the next decade. Productive capacity is expected to rise from 350,000 barrels a day to more than half a million barrels a day. And so, on a stand alone basis without pursuing anything else, significant growth capacity exists within the Syncrude project itself.

We also continue to welcome the opportunity to increase our ownership in Syncrude through consolidation of the Syncrude owners. And we would consider expansion outside the Syncrude project, remaining focused on oil sands-related assets.

As for financing an acquisition, we would expect to finance it the same way we have historically through judicious use of debt and equity to maintain an investment grade capital structure. We also would aim to avoid any dilution of our existing Unitholders, and depending on market conditions, to minimize any reductions to distributions.

On distributions

The outlook for distribution increases is very positive. Distributions are driven by free cash flow – funds from operations less capital expenditures and reclamation trust contributions. Production levels, crude oil prices and capital expenditures are the main determinants of free cash flow. Given the completion of our Stage 3 expansion and the anticipated increase in production and decline in capital expenditures, we expect our free cash flow to grow.

Our priority for that free cash flow is debt repayment. We have set a net debt target of about $1.2 billion to give us the financial flexibility we feel is prudent. We expect to reach this target by the end of the year under our current outlook, which calls for a crude oil price of US$55 per barrel WTI and production of 35.5 million barrels in 2006. Once that target is within reach, we expect to optimize long-term cash distributions for our investors within the context of pursuing attractive growth opportunities, should they arise.

Our quarterly distribution schedule, as opposed to monthly, should help to smooth out payout amounts, which may fluctuate more in the future in response to changes in crude oil prices, production and a higher payout ratio. Most importantly, our long reserve life provides a solid foundation for sustainable distributions over the long-term.

On the impact of higher Crown royalties

The royalty structure that the Alberta government instituted was designed to encourage and contribute to oil sands development, and it has worked. A nominal one per cent of gross revenue

ALLEN HAGERMAN, FCA

CHIEF FINANCIAL OFFICER

Allen has more than 25 years of experience in the financial management of energy companies. Prior to Canadian Oil Sands, he was Vice President and Chief Financial Officer of Fording Canadian Coal Trust and held senior positions at Hudson's Bay Oil and Gas and Home Oil. Allen is a chartered accountant, holds an MBA, and has completed the Institute of Corporate Directors, Corporate Governance program and is accredited as a certified director under that program

MARCEL COUTU

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Marcel has more than 25 years of experience in the resource and energy sector, primarily focused in corporate finance. Prior to joining Canadian Oil Sands, he was Chief Financial Officer of Gulf Canada and held senior executive positions at TransCanada Pipelines. Marcel holds an H.B.Sc and an MBA, and is a member of the Association of Professional Engineers, Geologists and Geophysicists, and the IBA

is due until payout and the royalty rate then moves to 25 per cent of project net cash flow (after capital but before financing costs). We expect to be paying the higher rate in early 2006. We feel the structure is fair because it allows us to recover our investment and is then tied to the project's profitability. Even at the higher royalty rate, based on today's crude prices, we expect to be generating healthy operating margins.

On the impact of lower oil prices

Our revenues are generated from the sale of a single high-quality crude oil; however, lower oil prices do reduce our capacity to finance operations and the amount available for cash distributions to Unitholders. Once we begin to approach full payout of our free cash flow – funds from operations less capital expenditures and reclamation trust contributions – our distributions may more closely reflect changes in crude oil prices – up or down.

We also believe that a change in crude oil prices is the main factor affecting our Unit price, notwithstanding any other significant developments in our business. We offer a long-term crude oil investment opportunity for investors who believe in strong long-term crude oil prices.

We manage our capital structure to provide a prudent balance of debt and equity. We believe that a strong balance sheet is a cost effective method of protecting against fluctuations in crude oil prices, and we are currently aiming for net debt to cash flow coverage of about two times against a potential low US$30 per barrel oil price environment.

On the upside, lower oil prices may create opportunities. Our strong balance sheet positions us to capitalize on these opportunities when they arise. The downside, obviously, is the impact lower oil prices could have on Unit prices, which could reduce our financing capacity during such cycles.

On risk management

We are fundamentally exposed to crude oil prices with our long-life crude oil reserves. Typically our investors are attracted to an investment in Canadian Oil Sands Trust for that particular exposure, and we generally do not intend to take it away by hedging. We may, however, hedge our crude oil production periodically to reduce cash flow risk during expansions or other growth and financing circumstances.

We also are exposed to the price of natural gas as the hydrogen and energy source required by Syncrude's operations. Importantly though, natural gas prices historically are closely linked to crude oil prices and we are far less sensitive to changes in natural gas prices – about one eighth as sensitive – as we are to changes in crude oil prices. We may hedge our natural gas consumption if and when we see a good opportunity to do so, as we have done in the past.

Changes in foreign exchange are another risk. A weakening U.S. dollar works against us because revenues are determined in U.S. dollars while our expenses are in Canadian dollars. Offsetting a weakening U.S. dollar somewhat, is the close to $1 billion in U.S. dollar denominated debt we carry, which although not a perfect hedge, does partially mitigate this risk. We have small foreign exchange positions that will expire by 2007, but at this time we do not intend to enter any new foreign exchange contracts.

Finally, our Syncrude asset is exposed to the risk of an event, such as a fire or explosion, damaging all or part of the facility. Syncrude mitigates this risk by employing world-class operating and maintenance procedures and techniques. Furthermore, Syncrude conducts annual risk identification reviews to assess and manage potential risks. While we can't fully protect against all types of risks, Canadian Oil Sands also has purchased property insurance to cover a portion of our share of the costs associated with rebuilding the facility and business interruption insurance to protect a significant portion of funds from operations lost during construction of the rebuild. Combined limits on our property and business interruption insurance currently total US$1 billion.

On the competitive price pressure from increasing synthetic crude production

Additional synthetic oil production will be coming on-stream this year with our Stage 3 expansion, but our read of the markets is that customers will welcome this development. Production rates for conventional light, sweet crude oil have been declining in North America for many years. Our synthetic SSB crude is a light oil with an average API of about 32°, low residual bottoms and low sulphur content; as such, in many respects it is a replacement to the feedstocks that customers have used in their refineries for over 50 years. Some of our customers are beginning to invest in refinery assets to process more synthetic crude and to deal with environmental and product quality issues. We continue to also work with the pipeline companies to provide pipeline extensions and expansions to take our product to our existing and new customers, and to improve the quality of the delivered product.

With the startup of the Stage 3 expansion, Syncrude will be producing an even higher quality synthetic crude called Syncrude Sweet Premium™ ("SSP"). This blend will have a higher diesel cetane count and kerosene smoke point than SSB, enabling our existing customers to potentially increase the percentage of synthetic crude in their refinery, and perhaps attract new customers. In terms of future expansions, we also are exploring the opportunity to produce a light, sour product to market as a diluent for blending with other producers' bitumen.

While an increase in supply tends to put downward pressure on product prices in any commodity business, we are working to create new demand and an extended market reach that we hope will offset any significant downward pressures. Historically our SSB product has traded close to WTI, and given SSP's superior quality, we expect to maintain a plant gate price that approximates WTI.

TREVOR ROBERTS

CHIEF OPERATIONS OFFICER

Trevor has 30 years of experience in the energy sector. Prior to Canadian Oil Sands, he was Senior Vice President, Operations with Suncor Energy, responsible for all of its day-to-day oil sands operations. Prior to that, Trevor held senior positions with Shell Canada Limited

TRUDY CURRAN

GENERAL COUNSEL AND CORPORATE SECRETARY

Trudy has practiced securities/corporate finance law for over 20 years at such organizations as EnCana Corporation, Canadian Pacific Limited and Canadian Airlines. Trudy received her LLB and her B.A. (with distinction) and [illegible] ient of the Governor General's Bronze Medal Award

LAUREEN DUBOIS

CONTROLLER

Laureen has 9 years of accounting experience and prior to Canadian Oil Sands, she worked in various accounting positions with EnCana Corporation and Canadian Pacific Limited. Laureen holds a Chartered Accountant designation and a Bachelor of Commerce degree (with distinction) from the University of Saskatchewan.

RYAN KUBIK

TREASURER

Ryan has more than 10 years of corporate finance experience. Prior to Canadian Oil Sands, he held progressively senior finance positions with EnCana Corporation, PanCanadian Energy and PricewaterhouseCoopers. Ryan holds Chartered Accountant and Chartered Financial Analyst designations as well as a Bachelor of Commerce Degree.

On internalizing the marketing program

Our five-year marketing contract with EnCana will expire at the end of June 2006 and, for a number of reasons, this is a good time for us to take control of marketing our Syncrude production. In many ways it has been a natural evolution: the asset is growing and Canadian Oil Sands is growing right along with it. Furthermore, the markets are changing – new supply is being added, new pipelines, new refinery customers and refinery re-configurations, and new feedstock choices for refiners. It is an ideal time for us to have a direct hand in influencing that landscape. Establishing our own marketing ability will result in more direct control over our marketing processes, a better understanding of our customers' needs, and enhancement of our connection with rapidly changing market dynamics. We expect these insights will assist us in making better long-term strategic decisions about markets and products, both for our Syncrude product and as we consider further capital investments in oil sands.

On the challenges of growth over the next 10 years

The oil sands sector is expected to expand tremendously with a number of new projects slated for the area. Consequently, the demand for labour to construct these projects is expected to grow, peaking during 2007 to 2009. We are in a fortunate position to have constructed our Stage 3 expansion during a lower demand period compared to the near-term forecast.

Nevertheless, we plan to continue to grow, which is not dissimilar to the competition; however we believe we are in a better position to do so. We have a larger operational workforce and we can draw on them in a way that a greenfield operation cannot. Syncrude Canada is in a position to attract people because it offers experience, one of the safest work environments, a close proximity to Fort McMurray and competitive wages in a non-unionized setting. In addition to some 4,000 operations personnel on site, Syncrude Canada's construction workforce peaked at about 6,500 people last year, so there is a vast pool of people who are familiar with our project and our approach. Finally, our next growth stage is more modest and flexible.

On foreign ownership

We strongly believe the current requirement for mutual fund income trusts to maintain non-resident ownership below 50 per cent does not recognize the reality of today's capital markets and is not practical to manage. Businesses need access to global capital markets to grow, which is in the best interest of investors and national economies. We believe the Federal Government appreciates this situation, and we are continuing to seek relief from this non-resident ownership requirement for our Unitholders.

On the ability to add value to Syncrude

We are part of an owner group that has extensive global reach in the upstream and refining ends of this business. As a group, we bring process, discipline, technical review, business controls and financial capability, all of which is and has been very meaningful for Syncrude.

As Canadian Oil Sands, we bring a management team that is on the ground and dedicated to interfacing with Syncrude Canada management and the owner group. As a management team, we bring technical expertise, a strong governance orientation and a single asset focus that none of the other owners have. Our aim is to leverage the contributions and strengths of the Syncrude owner group, which includes some of the best operators in the industry, to optimize the Syncrude business operation. We achieve this goal primarily through participating in, and chairing many of the Syncrude committees.

Because Syncrude is our only investment, we provide the pure-play perspective on the operations and value fundamentals of this business. In many ways, we are the voice of the Syncrude operation, particularly in the capital markets. In turn, we share investors' opinions of the business with Syncrude and its owners. We have become the designated spokesperson on financial and operational results for Syncrude to the investment community through the endorsement of the other owners; it is our website, for example, that most investors and analysts look to for updates on the Syncrude project. We would like to believe that, because of our pure-play status, we are raising the standards of disclosure of oil sands information and this will ultimately lead to better information and understanding of all oil sands projects.

SIREN FISEKCI

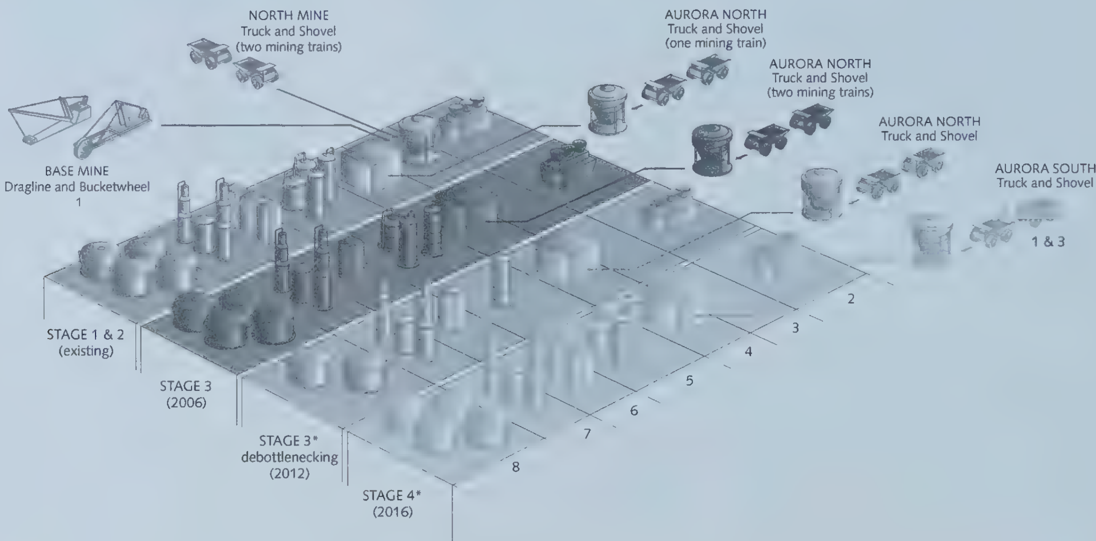
DIRECTOR, INVESTOR RELATIONS

Through positions at energy compani[illegible] EnCana Corporation, PanCanadian Energy, NAL [illegible] Energy. Siren [illegible] over 10 years of investor relations experience. Siren holds a Bachelor of [illegible] Degree, a diploma in Public Relation[illegible] [illegible]mpleted the Canadian Securitie[illegible] (Hons.) and the Ric[illegible] Management of Investor Relations program.

In early 2006, Syncrude finished construction on its Stage 3 project, a massive expansion of its facilities that began in late 2001. The project is on schedule to come on-line by mid-2006. It is designed to increase productive capacity to 350,000 barrels per day, or 124,000 barrels per day net to the Trust, reaffirming Syncrude's position as the largest producer from Canada's oil sands. Start-up of many of the new and revamped units began in 2005 and we are pleased with their early performance.

The most capital intensive component of the project was the expansion of our Mildred Lake upgrading facility, which featured construction of a third fluid coker and ancillary facilities. Syncrude has been using fluid coking as its primary technology for upgrading bitumen since operations began in 1978, and today Syncrude is recognized as the world leader in fluid coking. Bringing on new bitumen supply to feed the upgrader was also part of Stage 3. A second mining train at Syncrude's Aurora North mine, Syncrude's best quality mine, came into operation in October 2003.

Stage 3's total investment is estimated at $8.4 billion, or $3 billion net to the Trust, as at February 22, 2006. When we announced the project in early 2001, we estimated the total cost at $4.1 billion. Execution of the project, however, proved more challenging than we had anticipated, leading to schedule delays and cost escalation. The challenges we encountered included: a difficulty in sourcing engineering design capacity, which delayed construction of some of the modules and upset their delivery schedule; lack of Syncrude or owner personnel managing the project and encouraging more accountability for results; integrating the expansion within an existing, operating facility; and lower productivity than was originally forecasted. The lower productivity largely reflects the growing shortage of skilled construction labour within the Fort McMurray area and the supervisory staff for that labour. This problem may persist and indeed worsen over the next few years with the growing number of capital projects expected in the area.

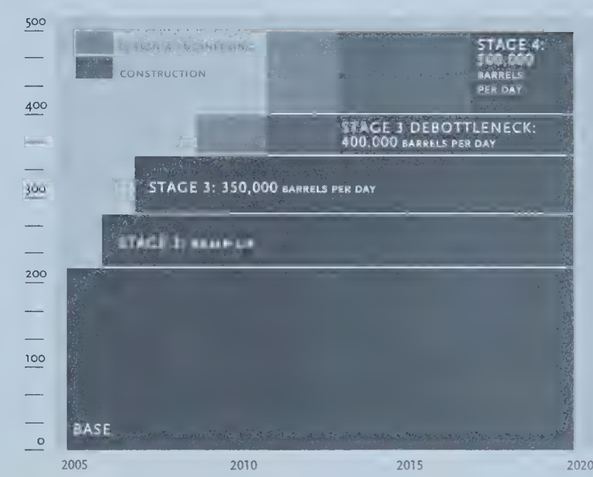


Oil Sands Process:
1 Mining, ore sizing and slurry preparation
2 Utilities
3 Primary extraction
4 Secondary extraction/froth treatment
5 Primary upgrading (cokers)
6 Hydrogen plants (3 existing, 1 in Stage 3)
7 Secondary upgrading
8 Tank farm

* Preliminary; requires Syncrude owner approval

It is important to recognize that not all of the capital invested in Stage 3 was directed at increasing production. The expenditures also were used to:

- Improve the quality of all crude oil volumes produced to SSP, a lighter, sweeter crude oil. We expect SSP will be more attractive to North American refiners, because of its higher cetane and kerosene smoke points.
- Construct additional pre-built capacity that can be unlocked through the next Stage 3 debottleneck expansion, providing incremental productive capacity at more robust economics. For example, the new Coker 8-3 is capable of processing 145,000 barrels of bitumen per day, providing about 30 per cent more coking capacity than will be required by the Stage 3 expansion.
- Implement new measures to mitigate Syncrude's impact on the environment. Specifically, the new coker features a flue gas scrubber to essentially eliminate all of its sulphur dioxide emissions. This sulphur dioxide will be used to produce marketable ammonium sulphate fertilizer through a third-party onsite manufacturing arrangement.
- Improve and modernize the base plant operations. A new control centre was built to centralize and implement state-of-the-art computer controls to ensure optimum performance of a facility that operates 24 hours a day, 365 days a year.



SYNCRUDE EXPANSION PLANS

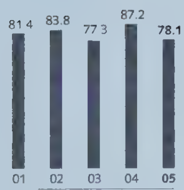
BASE REFLECTS 2005 ACTUAL PRODUCTION; Stage 3 ramp-up reflects 2006 production outlook as at February 22, 2006; Stage 3, Stage 3 debottleneck and Stage 4 reflect productive capacity.

Based on Syncrude's 2005 business plan; the Stage 3 debottleneck and Stage 4 are preliminary and have not yet been approved by Syncrude's owners

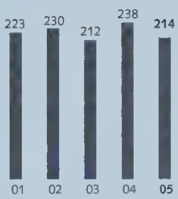
STAGE 3 BENEFITS

The new fluid coker constructed as part of the Stage 3 expansion is the largest of its kind in the world and weights 2,800 tonnes – equivalent to the weight of eleven Statues of Liberty.

PEOPLE TRUST WHAT THEY SEE



SYNCRUDE ANNUAL PRODUCTION
(MILLION BBLS)



SYNCRUDE AVERAGE DAILY PRODUCTION
(THOUSANDS OF BBLS PER DAY)

SYNCRUDE PRODUCTION DECLINED IN 2005 as a result of plant turnarounds and the revamping and tie-in of units associated with the Stage 3 expansion.

OPERATIONS

2005 PRODUCTION

All figures provided below are gross to Syncrude, except per barrel operating costs.

Total production in 2005 of 78.1 million barrels, or approximately 214,000 barrels per day, was 10 per cent below 2004 production. Reliable operations and no coker turnaround led to record production in 2004, whereas in 2005 Syncrude conducted the largest turnaround in its history, including the planned turnaround of Coker 8-2. As well, during 2005 many of the units associated with the Stage 3 expansion were revamped and tied-in.

Lower production in 2005 led to higher operating costs per barrel for the Trust, which averaged $26.34 compared to $19.40 in 2004. Natural gas is used in the operation, and consequently the rise in natural gas prices relative to 2004 also contributed to the operating cost increase.

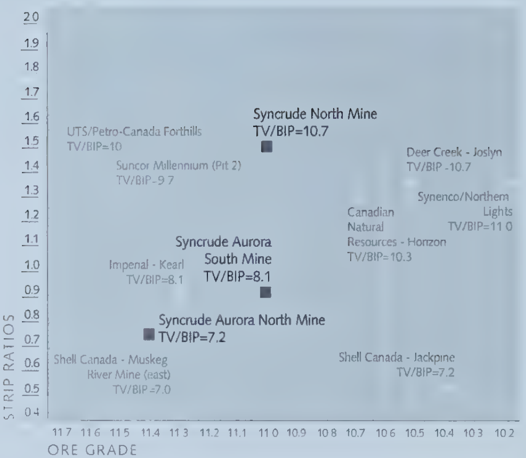
Syncrude largely completed its South West Quadrant Replacement ("SWQR") project in 2005, which provides additional feed for the expanded upgrader. The project replaces bitumen production from the southwest quadrant of the Base Mine through the installation of new mining systems at the North and Aurora North mines and was completed on schedule at a cost of approximately $835 million. The Base Mine has been our original source of oil sands since Syncrude began producing in 1978 and it is expected to be depleted in 2006.

Improving margins

Syncrude is engaged in long-term efforts to manage operating costs with the goal of becoming the lowest-cost producer of bitumen in the Athabasca region. It hopes to achieve lower costs as a result of the Stage 3 expansion, and by applying new technologies in bitumen production to leverage the natural advantages of Syncrude's high-quality ore bodies. Syncrude invests about $50 million annually in research and development, most of which is applied to problem solving and optimization of the many unique processes involved in oil sands mining, extraction and upgrading operations. Key areas of new technology application include:

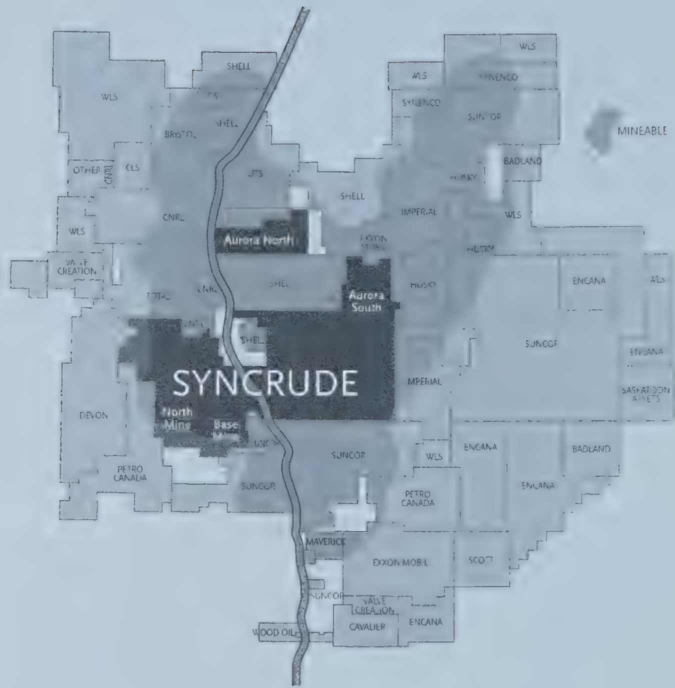
- separating and disposing of all, or part of, the sand closer to the mine face to reduce trucking and tailings costs;
- reducing the energy input requirements in the oil extraction operation;
- improving the oil recovery and efficiency of the extraction operation;
- improving the tailings processes; and
- continuing to improve the reliability of all process plants and equipment.

Natural gas is a significant input cost in the production of bitumen and synthetic crude oil. To ensure that Syncrude operations are as efficient as possible, a concentrated effort is made to minimize energy input requirements and to recycle and re-use waste gas streams. Additionally, Syncrude is evaluating new technologies in its operations to further reduce energy input requirements and replace natural gas with another fuel source, for example coke gasification, which may eventually become attractive but remains a challenging new and expensive technology.



MINE QUALITY COMPARISONS

THE QUALITY OF SYNCRUDE'S MINES IS AMONG THE BEST WITH LOW TOTAL VOLUME TO BITUMEN IN PLACE RATIOS ("TV/BIP"). This ratio measures the total volume of material (dirt, sand and bitumen) relative to the volume of bitumen in place. It is determined by the stripping ratio (the amount of waste that must be removed to access the bitumen deposit) and the ore grade (richness of the deposit). Syncrude's Aurora North and South mines – the future of Syncrude's operations – have excellent quality characteristics, which should enhance the economics of the Syncrude project.



WE BELIEVE THAT THE QUALITY AND LOCATION OF SYNCRUDE'S LEASES PROVIDE THE PROJECT WITH A DISTINCT ADVANTAGE. All of Syncrude's reported reserves are mineable and are located in the "sweet spot" of the Athabasca oil sands deposit. Only about 20 per cent of the oil sands deposits in the Athabasca region of Alberta – outlined in the map above – are close enough to the surface to be recoverable through mining. The rest of the resource requires in-situ methods of recovery, the success of which depends on the quality of the reservoir and correspondingly, recovery rates and costs have been variable. In general, in-situ bitumen recovery rates are in the 40 to 60 per cent range whereas the recoveries for a mining operation are up to 90 per cent.

The increase in world mining and manufacturing activity of the past two years has caused longer procurement lead times for many materials used in the Syncrude operation. This has required Syncrude to place even more emphasis on maintenance planning and scheduling activities, with special attention to ensure adequate spare parts inventories are on hand at all times. Still, certain suppliers have been challenged to keep ahead of the surge in demand for maintenance and operating materials. A world-wide shortage of large haul truck tires is a good example. While Syncrude has identified this shortage as a production and cost risk for 2006 and 2007, it does not expect it to impact the current 2006 production outlook because Syncrude has implemented various measures aimed at reducing tire wear and damage to more efficiently manage the supply.

Labour

Syncrude Canada employs several thousand employees and contractors. The operation is well prepared for the Stage 3 expansion as it comes on-stream during the first half of 2006.

Syncrude Canada's permanent employee turnover has increased from an average of about five per cent over the past few years to at about nine per cent in 2005, driven largely by the retirement demographics of an aging workforce at Syncrude Canada and the migration of other employees to competing projects.

Syncrude Canada has tremendous capability to attract and train new employees and retain them through career development and an attractive benefits package.

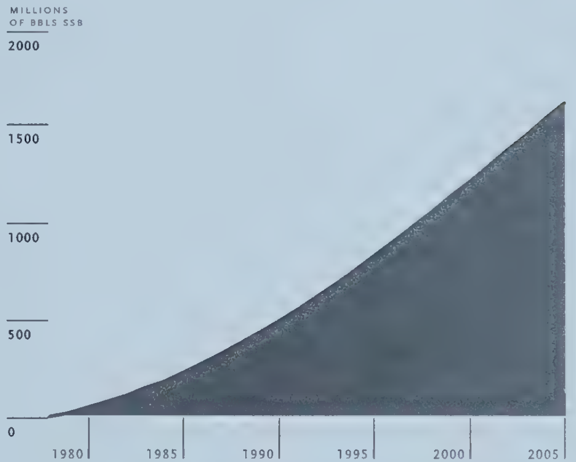
To help provide an adequate supply of trained labour in its operations in the future, Syncrude Canada supports local aboriginal communities, colleges, universities, trade schools and various levels of government to help people develop the skills and knowledge they need to enter the workforce. Syncrude Canada is one of the largest employers of Aboriginal Peoples in Canada. In addition, Syncrude Canada recruits extensively from the regional municipality of Wood Buffalo and fills the remainder of its available positions with workers from across Canada. With the completion of the Stage 3 project, Syncrude Canada's requirement for engineering and construction labour has been reduced, at least until the next growth phase expected later this decade.

Environment, health and safety

Syncrude has an exceptional safety record and in 2005 Syncrude Canada employees and contractors achieved world-class safety performance. This is particularly noteworthy because it was achieved during the busiest construction period in Syncrude's history.

In 2005, the lost-time injury ("LTI") rate was 0.05 per 200,000 workforce hours, including permanent and contract workers, far surpassing Syncrude's previous best year LTI rate of 0.10 set in 2002. Syncrude's LTI rate is now less than 1/50th of the Alberta provincial average of 2.9.

SYNCRUDE CUMULATIVE PRODUCTION



SINCE ITS FIRST YEAR OF OPERATIONS IN 1978 Syncrude has produced more than 1.6 billion barrels of crude oil. Based on Syncrude's proven and probable reserves, another five billion barrels remain to be produced

LONG-LIFE RESERVES/RESOURCES

As at December 31, 2005 (billions of barrels of SSB)	Syncrude	Canadian Oil Sands[1]
Proven Reserves [2]	2.9	1.0
Proven & Probable Reserves [2]	5.0	1.8
Total Resources (includes proven & probable reserves)	9	3

[1] The Trust, through its operating subsidiaries, holds a 35.49 per cent interest in the Syncrude project

[2] Based on independent reserves evaluation by GLJ Petroleum Consultants effective December 31, 2005 and prepared in accordance with National Instrument 51-101

Syncrude's safety performance saves it $0.20 in Workers' Compensation Board rates for every $100 in payroll compared to the industry average.

Safety values, beliefs and attitudes are the key to any manufacturing operation. Great performance comes from a carefully planned approach and a strong management system. It also comes from a disciplined approach and the commitment of everyone involved in the operation. World-class safety performance not only results in fewer people being hurt less often and less severely, but also creates the environment for success in many other key dimensions of manufacturing excellence, namely, maintenance and reliability, quality, and cost performance. In other words, safety is an industry bellwether that must be successfully accomplished before other industry-leading performance benchmarks can be achieved.

In terms of the environment, Syncrude is committed to remaining a leader in the profitable, sustainable development of Athabasca's oil sands. Syncrude is making enormous strides in the key areas of land reclamation, water usage and emissions. In 2005, Syncrude reclaimed over 300 hectares of land, bringing total permanent land reclaimed to more than 4,000 hectares. More than four million trees and shrubs have been planted. Syncrude has reclaimed 22 per cent of total land disturbed at Mildred Lake and its Aurora North Mine, even though Aurora has been in production only since 2000.

In the area of water management, Syncrude has reduced its raw water imports from the Athabasca River by over 25 per cent since 2002 due to various conservation efforts. Syncrude consumes about half of its water license limit and recycles 80 to 90 per cent of its process water.

Reducing emissions is another key focus area for Syncrude. Through improvements in energy consumption and processes, greenhouse gas emissions per barrel of production are expected to decline by 23 per cent over the 1988 to 2010 period. Syncrude also is taking action to reduce total sulphur dioxide emissions by 60 per cent from current levels, even while crude oil production is expected to substantially increase. Furthermore, the move to produce the higher quality SSP blend will enable downstream refineries to more easily produce cleaner burning, environmentally-friendly petroleum products.

For more information on Syncrude's 2005 Environment, Health, Safety and Social Performance, please see their 2005 Sustainability Report, which will be available from the Trust in June 2006.

TRUSTING WHAT WE KNOW

ABOUT OUR BOARD

C.E. (CHUCK) SHULTZ

Chairman and Chief Executive Officer, Dauntless Energy Inc.

Chairman of the Board of Directors

Mr. Shultz is the Chair and Chief Executive Officer of Dauntless Energy Inc. (private oil and gas company) which he formed in 1995. Prior to that, from 1990 to 1995, Mr. Shultz served as President and Chief Executive Officer of Gulf Canada Resources Limited (oil and gas company). He is a director of Enbridge Inc. (public pipeline company) and of Newfield Exploration (public oil and gas company). He also is a director of several private companies, including Glencoe Exploration, Matrix Solutions and Tasman Exploration, and sits on the Siemens Canada Advisory Board. He has completed the Institute of Corporate Directors, Corporate Governance program and is accredited as a certified director under that program.

MARCEL R. COUTU

President and Chief Executive Officer, Canadian Oil Sands Limited

Prior to Mr. Coutu becoming the President and Chief Executive Officer of the Corporation in 2001, he was Chief Financial Officer of Gulf Canada Resources Limited from May 1999 to July 2001. Prior thereto he was Director, Finance; Vice President, Finance; and, subsequently, Senior Vice President, International of TransCanada PipeLines Limited. Mr. Coutu has completed the Institute of Corporate Directors, Corporate Governance program and is a member of the Association of Professional Engineers, Geologists and Geophysicists.

E. SUSAN EVANS

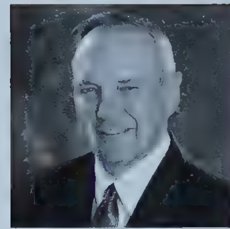
Corporate Director

Mrs. Evans has served in the oil industry for 25 years, initially in private practice with Bennett Jones LLP and subsequently with Encor Inc. (public oil and gas company) as Vice President, Law & Corporate Affairs and Corporate Secretary. Since her retirement in 1993, she has served as a Director of several public companies including Home Oil Company, Anderson Exploration Inc. and Athabasca Oil Sands Limited. Mrs. Evans was also a Commissioner of the Alberta Financial Review Commission, Chair of the Audit Committee for the Province of Alberta, Chair of the Alberta Judicial Compensation Commission and Director of the Canada Deposit Insurance Corporation in Ottawa. She currently serves on the Board of Directors of Enbridge Inc. (public pipeline company).

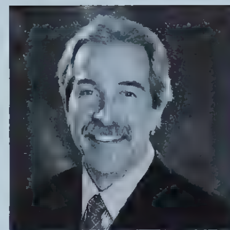
THE RIGHT HONOURABLE DONALD F. MAZANKOWSKI

Corporate Director and Business Consultant

Rt. Hon. Donald F. Mazankowski is a recipient of the Order of Canada and a director of a number of major Canadian corporations, including ATCO, Great West LifeCo, IGM Financial Incorporated, Power Corporation of Canada, Power Financial Corporation, Shaw Communications Inc., Weyerhauser Co., and Yellow Pages Income Fund. Mr. Mazankowski is also a senior advisor to Gowling, LaFleur Henderson LLP, Barristers and Solicitors. Mr. Mazankowski enjoyed a distinguished 25-year career as a Member of Parliament of Canada from 1968 to 1993 and held several senior Cabinet positions including Deputy Prime Minister from 1986 to 1993, Minister of Finance from 1991 to 1993 and President of the Privy Council from 1986 to 1991. Mr. Mazankowski was also Minister of Agriculture, Minister responsible

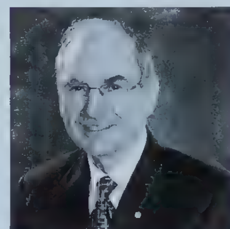


C.E. (CHUCK) SHULTZ *Chairman*



MARCEL R. COUTU *Director*

E. SUSAN EVANS *Director*

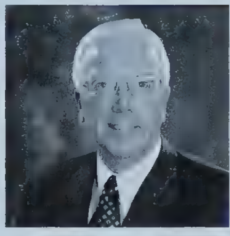


The Right Honourable
DONALD F. MAZANKOWSKI
Director

At Canadian Oil Sands, the principal objectives are enhancing Unitholder value and operating with integrity and honesty. The Board of Directors and management of Canadian Oil Sands believe that effective governance ultimately improves the performance of the Trust, and therefore benefits all Unitholders.

WAYNE M. NEWHOUSE *Director*

WALTER B. O'DONOGHUE *Director*



WESLEY R. TWISS *Director*

JOHN B. ZAOZIRNY *Director*

The Board of Directors oversees management of the Trust and is comprised of proven leaders with extensive experience in the public and private sectors. Canadian Oil Sands' Units are listed on the Toronto Stock Exchange (TSX) under the symbol COS.UN. The Trust's governance practices are outlined in the Management Proxy Circular dated March 10, 2006. In 2005, the Trust was ranked number one for corporate governance among all trusts in Canada by *Report on Business*

for Privatization and Regulatory Affairs, President of the Treasury Board, Government House Leader, Minister of Transportation and Minister responsible for the Canadian Wheat Board.

Wayne M. Newhouse

Corporate Director

Mr. Newhouse is a Professional Engineer and oil and gas executive with over 40 years of broad industry experience. From 1995 to present, Mr. Newhouse has served as President of two private oil and gas companies and currently is a director of Petrofund Energy Trust and E-T Energy Limited. Prior to 1995, he was a Senior Vice President with Norcen Energy Resources Ltd. Mr. Newhouse has completed the Financial Literacy for Directors course.

Walter B. O'Donoghue

Corporate Director

Chair, Corporate Governance and Compensation Committee

Prior to January 2005, Mr. O'Donoghue was a partner at Bennett Jones LLP where he practiced corporate law, mergers and acquisitions and securities law for over twenty years. He served as a commissioner of the Alberta Securities Commission for six years from April 1997 to March 2003. He also has served in the past as a director of a number of public issuers, including Telus Corporation and Gulf Canada Resources Limited.

Wesley R. Twiss

Corporate Director

Chair, Audit Committee

Mr. Twiss is a corporate director with 35 years of energy industry experience, including 13 years as the senior financial officer of two major Canadian companies. He was Executive Vice President and Chief Financial Officer of PanCanadian Energy Corporation from October 2000 until April 2002 and was Executive Vice President and Chief Financial Officer of Petro-Canada from 1998 through 2000. In those roles, Mr. Twiss was responsible for directing all aspects of corporate financial affairs, as well as strategic management and corporate development. He is a director of Keyera Facilities Income Trust, Enbridge Income Fund, EPCOR, Hydrogenics Corporation and Addax Petroleum Corporation. He has completed the Institute of Corporate Directors, Corporate Governance program. Mr. Twiss holds a Bachelor of Applied Science in Chemical Engineering from the University of Toronto and a Master of Business Administration from the University of Western Ontario.

John B. Zaozirny

Counsel, McCarthy Tétrault LLP

Mr. Zaozirny is Counsel to McCarthy Tétrault LLP, Barristers and Solicitors and Vice Chairman of Canaccord Capital Corporation. He also is a director of a number of public entities including Fording Canadian Coal Trust, IPSCO Inc., Pengrowth Corporation, TerraVest Income Fund, Provident Energy Ltd., Computer Modelling Group, and Bankers Petroleum Inc. In addition to his private sector experience, Mr. Zaozirny was in public service as a former Minister of Energy for the Province of Alberta

PEOPLE TRUST RESULTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

ADVISORY- in the interest of providing the Trust's Unitholders and potential investors with information regarding the Trust, including management's assessment of the Trust's future production and cost estimates, plans and operations, certain statements throughout this management's discussion and analysis ("MD&A") contain "forward-looking statements" under applicable securities law. Forward-looking statements in this M&DA include, but are not limited to, statements with respect to: the expectation that higher energy consumption will continue post completion of the Stage 3 expansion, the anticipated cost, completion, and start-up date for Stage 3, the cost, timing and benefit of the completion of the SWQR project, the estimated costs relating to asset retirement obligations, not needing to issue any equity for completing Stage 3 and the other current capital projects, the view that Stage 3 will increase production and sales, thereby increasing free cash flow, the timing regarding reaching the Trust's net debt target, the need for future hedging, the return achieved from sales of Syncrude Sweet Premium™, the expected price for crude oil and natural gas in 2006, the expected reduction in sulphur emissions from the Syncrude emission reduction project, the actual taxes paid in the future by Canadian Oil Sands, the expected production level at Syncrude in 2006, the expected timing and associated production impact of coker and other unit turnarounds, the expected revenues and operating costs for 2006, the expected funds from operations for 2006, the anticipated impact that certain factors such as natural gas and oil prices, foreign exchange and operating costs have on the Trust's funds from operations and net income, the expected capital expenditures in 2006 and beyond, the expected impact of a unit split, and the anticipated taxability of distributions paid by the Trust. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Trust believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: labour shortages and the productivity achieved from labour in the Fort McMurray area, the impact of technology on operations and processes and how new complex technology may not perform as expected, the supply and demand metrics for oil and natural gas which impact pricing, the ability of the other joint venture owners of Syncrude to modify the 2006 budget at Syncrude, normal risks associated with litigation, general economic, business and market conditions, regulatory changes, the variances of stock market activities generally, and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Trust as well as the assumptions and qualifications contained in the Trust's guidance document as such relate to expectations for 2006 production, capital, operating costs, and taxability. You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and the Trust does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

BUSINESS DESCRIPTION

Canadian Oil Sands Trust is an open-ended investment trust that generates income from its oil sands investment in the Syncrude Joint Venture ("Syncrude"). The Trust's 35.49 per cent Syncrude ownership is the largest interest and the only pure public investment vehicle in the joint venture.

Syncrude has been in operation for 27 years and has a proved and probable reserve base that should support production at an estimated annual capacity of 128 million barrels for over 35 years. Syncrude is operated and administered by Syncrude Canada Ltd. ("Syncrude Canada") on behalf of eight joint venture owners, two of whom are subsidiaries of the Trust. It operates the largest oil sands facility in the world and produces crude oil through the mining of oil sands from ore deposits in the Athabasca region of Northern Alberta. Currently, Syncrude operates in its Base, North and Aurora North mines, which represent its proved reserves of approximately 2.9 billion barrels, or 1.0 billion barrels net to the Trust. When combined with a lease that has not yet been developed, referred to as Aurora South, the estimate of Syncrude's proved plus probable reserves is 5.0 billion barrels, 1.8 billion barrels net to the Trust. Syncrude's total resource base of approximately 9 billion barrels also encompasses other leases.

In addition to operating large oil sands mines, Syncrude operates bitumen extraction plants and an upgrading complex that processes bitumen into a light sweet crude oil. Syncrude's trademark product is a high quality, light, sweet synthetic blend, referred to as "Syncrude Sweet Blend" ("SSB")™, which has an average gravity of about 32° API and less than 0.2 per cent sulphur content. Each joint venture owner receives its share of SSB production in kind and is responsible for its own marketing activities. SSB is transported by pipeline to refineries throughout most of Canada and the United States.

EXECUTIVE OVERVIEW

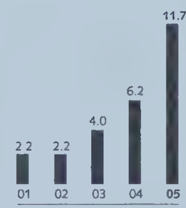
While Syncrude Canada is responsible for the daily operations of the joint venture, a Management Committee and other various committees of Syncrude Canada's Board of Directors, staffed by the joint venture owners, oversee and approve significant Syncrude expenditures and long-term strategies. Officers of Canadian Oil Sands Limited ("COSL"), the Trust's operating subsidiary which manages its 35.49 per cent interest in Syncrude, participate in the governance of Syncrude's operations and expansion plans through key roles on the Syncrude Management Committee and the Syncrude Canada Board. In particular, officers of COSL chair Syncrude Canada's Board of Directors, the Audit and Pension Committee, the Business Controls Project Steering Committee and the CEO Committee, and Syncrude's Management Committee.

Canadian Oil Sands is responsible for financing its share of Syncrude's operations, expansions, and its own administrative costs. Sources of financing include funds from operations, generated from the sale of its SSB production and, as required, debt and equity financing. Funds from operations is calculated on the Trust's consolidated statement of cash flows as cash from operating activities before changes in working capital. In management's opinion, funds from operations is a key performance indicator of the Trust's ability to generate cash to fund capital expenditures. Free cash flow, which is calculated as funds from operations less capital expenditures and mining reclamation trust contributions, is a key indicator of the Trust's ability to repay debt and pay distributions.

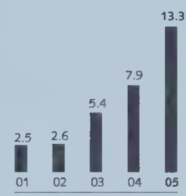
Funds from operations is highly dependent on the net selling price received for our SSB, production volumes, and the operating costs of producing SSB. The price we receive for our SSB product historically has correlated closely to the U.S. West Texas Intermediate ("WTI") benchmark oil price, and is also impacted by movements in U.S./Canadian foreign exchange rates. Crude oil prices can be volatile, reflecting world events and supply and demand fundamentals.

Production volumes reflect the capacity of the Syncrude facility and reliability of its operations. A proved plus probable reserve life estimated at over 35 years, based on a 128-million-barrel annual productive capacity, provides a secure, reliable source of bitumen for the production of SSB. The process of mining, extracting and upgrading bitumen is a highly technical and complex manufacturing operation requiring regular maintenance of the various operating units, which can affect production volumes, and consequently, revenues. Production volumes have a significant impact on per barrel operating costs as a large proportion of the costs are fixed and if the plant is not operating, repair costs typically are also being incurred. One of the most significant production costs is natural gas; accordingly, operating costs are also sensitive to changes in natural gas prices. On a per barrel of SSB basis, the current operations consume approximately 0.85 gigajoules for each barrel of SSB produced.

In addition to funding sustaining capital expenditures, our funds generated from operations are used to repay debt, pay distributions to our Unitholders, and to partially finance acquisitions or our share of Syncrude's expansion projects.



MARKET CAPITALIZATION AT DECEMBER 31
($ BILLIONS)



ENTERPRISE VALUE AT DECEMBER 31 (MARKET CAP + NET DEBT)
($ BILLIONS)

To develop its extensive mineable oil sands leases, Syncrude has designed a staged expansion plan aimed at achieving sustainable productive capacity in excess of 500,000 barrels per day of sweet synthetic crude oil. Syncrude has current average productive capacity of about 250,000 barrels per day, or 89,000 barrels per day net to the Trust. Stages 1 and 2 have been completed and Syncrude is nearing the completion of Stage 3. After mid-2006 when it is anticipated to be completed, Stage 3, combined with current reliability initiatives, is expected to:

- provide an increase in the average productive capacity to about 350,000 barrels per day;
- lower operating costs per barrel as a result of scale economies and the use of cost-saving technologies;
- produce a higher quality product known as Syncrude Sweet Premium ("SSP")™ which we anticipate will attract a higher price than SSB in the equivalent marketplace; and
- improve environmental performance, including a reduction in SO_2 and CO_2 emissions for every barrel of crude oil produced.

The total Stage 3 cost is estimated at $8.4 billion, or $3.0 billion net to the Trust, of which $8.1 billion, or approximately $2.9 billion net to the Trust, was expended as of December 31, 2005. Construction on Syncrude's Upgrader Expansion, the remaining component of the Stage 3 project, was 98 per cent complete at the end of 2005, and Stage 3 is now in the commissioning phase with a scheduled start-up by mid-2006.

The next expansion phase, the Stage 3 debottleneck which follows Stage 3, will focus on releasing specific operating constraints, and is expected to be substantially less capital intensive than Stage 3. Stage 4 should commence within the next decade and is currently envisioned as additional mining trains and a fourth coker similar to Stage 3. Neither the Stage 3 debottleneck nor Stage 4 have received owner approval, and they are only in preliminary design at this time.

At December 31, 2005 based on the closing market price of $126.00 per Unit ("Unit"), our market capitalization and enterprise value were approximately $12 billion and $13 billion, respectively, up from $6 billion and $8 billion, respectively, at December 31, 2004 based on a closing Unit price of $67.61 at that date.

Management continually explores for acquisition opportunities of oil-sands related assets to augment Syncrude's internal growth plans. We also seek to maximize long-term Unitholder value by optimizing distributions to Unitholders. Distributions are dependent upon free cash flow, which is highly sensitive to crude oil prices; production and sales volumes; operating costs; Crown royalties; financing requirements for capital expansions; and our objective of maintaining an investment grade credit rating. Management feels it is necessary to maintain a conservative capital structure and a strong credit rating in order to remain unhedged and participate in and finance future expansion and acquisition opportunities with minimal equity dilution.

The Trust's financing strategy is focused on debt reduction towards a net debt target of about $1.2 billion. Based on our 2006 outlook, disclosed in detail later in this report, we anticipate that the net debt target will be reached by the end of 2006. The Stage 3 project is nearing completion, and while the overall cost continues to trend modestly higher, we believe the magnitude of potential cost increases has narrowed substantially. Additional sales from Stage 3 production are expected in mid-2006, and should result in significant free cash flow to support our finance and distribution plans.

More information regarding Canadian Oil Sands, including our Annual Information Form, is available at www.sedar.com.

SELECTED ANNUAL FINANCIAL INFORMATION

($ millions, except per Unit amounts)	2005	2004	2003
Revenues, after transportation and marketing expense	1,967	1,352	932
Net income	831	509	310
Net income per Unit, Basic	9.04	5.72	3.89
Net income per Unit, Diluted	9.01	5.72	3.89
Funds from operations	1,005	576	273
Funds from operations per Unit	10.93	6.47	3.43
Total assets	5,925	5,068	4,260
Net debt [1]	1,649	1,682	1,421
Total other long-term financial liabilities [2]	240	136	132
Unitholder distributions per Unit [3]	2.00	2.00	2.00

[1] Long-term debt less cash and short-term investments
[2] Includes employee future benefits and other liabilities as well as the asset retirement obligation
[3] Starting in Q4 2005, distributions declared after the end of a quarter are no longer being accrued in the financial statements. This change in how Unitholder distributions are recorded has no impact on the ultimate distributions declared and paid to the Unitholders or to the timing of such payments. See Note 14 of the consolidated financial statements for more information

In order to provide meaningful information to our Unitholders, our MD&A focuses on explanations of material variances in our financial results and significant events that have occurred since December 31, 2004. We believe material information relates to the business of the Trust that would reasonably be expected to have a significant influence on an investor's investment decision. We endeavor to explain the factors, when material, that ultimately impact the Trust's Unitholder distributions, such as revenues, operating and non-production costs, financing expenses, and capital expenditures. As well, we provide an overview of the Trust's financing and risk management activity in the period.

In each of 2005 and 2004, the financial results of Canadian Oil Sands reflect a 35.49 per cent working interest in the Syncrude Joint Venture. As a result of having acquired from EnCana Corporation a 10 per cent Syncrude working interest in February 2003 and another 3.75 per cent working interest in July 2003, our 2003 operating results reflect an average working interest ownership in Syncrude of 31.92 per cent.

Revenues, after transportation and marketing expense, reflect the realized price received from sales of our SSB crude oil, net of transportation and marketing costs, and crude oil and foreign currency hedging gains and losses. In 2005, we realized a net selling price after hedging of $70.91 per barrel, an increase of $27.23 and $32.68 per barrel over the price realized in each of 2004 and 2003, respectively. The increase reflects the substantial rise in WTI, which averaged US$56.70 per barrel, US$41.47 per barrel, and US$30.99 per barrel in each of 2005, 2004 and 2003, respectively. The Trust benefited from full exposure to this market price in 2005 as management discontinued crude oil hedging. In 2005 the Trust also realized an improved price differential relative to Canadian dollar WTI on our selling price compared to the previous two years.

The strong 2005 sales price was somewhat offset by a stronger Canadian dollar relative to the U.S. currency as well as lower production in 2005 relative to 2004. The Canadian dollar strengthened significantly over the three year period, averaging $0.83, $0.77, and $0.71 against the U.S. dollar in 2005, 2004, and 2003, respectively. Sales volumes, which differ from our share of Syncrude's production volumes primarily as a result of in-transit pipeline volumes, averaged 75,994 barrels per day in 2005 compared to 84,575 barrels per day in 2004, and 66,793 barrels per day in 2003. An advanced and extended Coker 8-2 turnaround, sulphur plant pump problems, maintenance activity on the heavy gas oil hydrotreaters, and the vacuum distillation unit shutdown and throughput restrictions all served to reduce 2005 production. By comparison, no coker turnaround was required in 2004 and Syncrude achieved a yearly production record. Syncrude production in 2003 was impacted by two coker turnarounds, with production similar to 2005, however a smaller Syncrude working interest ownership in 2003 resulted in lower sales volumes relative to 2005.

Overall, the increase in 2005 net revenues resulted in higher net income and funds from operations compared to 2004 and 2003, both on a total and per Unit basis. Net income in 2005 rose to $831 million, or $9.04 per Unit, from $509 million, or $5.72 per Unit in 2004 and $310 million, or $3.89 per Unit in 2003. Funds from operations totalled $1,005 million, or $10.93 per Unit, in 2005 for increases of 75 per cent and 368 per cent from 2004 and 2003, respectively.

The net revenue increase was partially offset by operating costs, which rose to $731 million in 2005 from $601 million and $515 million in 2004 and 2003, respectively, mainly as a result of higher natural gas prices. Non-production costs, primarily related to Stage 3 commissioning activities, and interest expense from Stage 3 financing also increased in 2005 relative to the previous two years. Depreciation, depletion, and accretion expense ("DD&A") rose in 2005, reflecting higher estimated future development costs and an accretion expense adjustment related to the initial adoption of the asset retirement obligation standard at January 1, 2004. Non-cash foreign exchange gains on U.S. dollar denominated debt were lower in 2005 as the Canadian dollar strengthened more in 2004 and 2003, resulting in larger gains in each of those years. Finally, a small future income tax expense was recorded in 2005 compared to the recoveries in each of 2004 and 2003.

Total assets continued to increase significantly in 2005 compared to 2004 as Stage 3 construction advanced. Our share of Syncrude's capital expenditures, largely related to the Stage 3 capital program, increased capital assets in 2005 by approximately $800 million and by $942 million in 2004. Accounts receivable rose as at December 31, 2005 due to higher SSB sales prices compared to December 31, 2004. As well, higher 2005 year-end inventory levels, which reflect linefill purchases and higher consumables inventory as the Syncrude operation expands, increased total assets in 2005. Total assests grew substantially in 2003 as a result of acquiring the additional 13.75 per cent working interest, which increased capital assets by approximately $1.9 billion.

Total other long-term financial liabilities rose substantially at the end of 2005 compared to the 2004 and 2003 year-ends, mainly due to an increase in the asset retirement obligation ("ARO") in 2005. The Trust and each of the other Syncrude owners are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Joint Venture. The ARO represents the present value estimate of Canadian Oil Sands' share of these costs, which as at December 31, 2005 increased to $148 million from $44 million at December 31, 2004.

Syncrude's undiscounted estimate of the total cash flows required to settle the Trust's share of the obligation rose to $525 million at December 31, 2005 from $275 million at December 31, 2004. This increase is mainly the result of revised assumptions regarding the volume of reclamation material required and the costs associated with storing and handling the additional material. Cost escalation associated with revegetation, landforming, and additional regional drainage requirements also contributed significantly to the estimate increase. Discounting the incremental cash flows at a 5.28 per cent credit adjusted risk free rate resulted in a $66 million increase to the ARO. In addition, adjustments of $27 million and $10 million, respectively, were recorded to correct accretion expense on the ARO over the period January 1, 1996 to December 31, 2005 and correct property, plant, and equipment balances on the January 1, 2004 adoption of the new CICA standard. While the majority of these adjustments relate to periods prior to the January 1, 2004 adoption of the new ARO accounting standard, the entire amount was reflected in 2005 as it is not significant.

Net debt at December 31, 2005 fell slightly from December 31, 2004 as funds from operations in 2005 were more than sufficient to cover capital expenditures and distributions, and a stronger Canadian dollar reduced the carrying value of our U.S. dollar denominated long-term debt. The higher 2005 and 2004 year-end net debt levels compared to 2003 reflect the additional debt issued to fund our share of Syncrude's capital expenditure program.

SUMMARY OF QUARTERLY RESULTS

Quarterly variances in revenues, net income, and funds from operations are caused mainly by fluctuations in crude oil prices, production, unit operating costs, and natural gas prices. A large proportion of operating costs are fixed, and as such, per barrel operating costs are highly variable to production. While the supply/demand balance for crude oil affects selling prices, the impact of this equation is difficult to predict and quantify and has not displayed significant seasonality. Maintenance and turnaround activities are typically scheduled to occur in the spring months of the first or second quarter. However, the exact timing of unit shutdowns cannot always be accurately scheduled, and unplanned outages do occur. Therefore production levels also do not display reliable seasonality patterns or trends. Natural gas prices are typically higher in winter months as heating demand rises, but this seasonality is significantly influenced by weather conditions.

The last three quarters of 2005 showed improving financial measures relative to 2004. Increased revenues after transportation and marketing expense reflect the higher, unhedged selling price and improved differentials to Canadian dollar WTI in 2005 compared to 2004. These impacts were partially mitigated by a stronger Canadian dollar relative to the U.S. dollar and lower production in the second and third quarters of 2005 compared to the same periods in 2004. The first quarter of 2005 was characterized by operating difficulties as unplanned hydrogen plant repairs forced the advancement and extension of a planned coker turnaround, significantly reducing production. By comparison, there were no coker turnarounds in 2004 and Syncrude set a yearly production record. Syncrude production averaged approximately 214,000 barrels per day in 2005, compared to approximately 238,000 barrels per day in 2004.

Operating costs were higher in each quarter of 2005 compared to 2004, reflecting higher natural gas prices and turnaround costs in the first and third quarters. Non-production costs were higher in each quarter of 2005 compared to 2004, particularly in the last three quarters, as Syncrude began to commission Stage 3 expansion units, while accretion expense was higher in the fourth quarter of 2005 reflecting an adjustment recorded in that period. However, the higher net revenues more than offset increased costs in each of the last three quarters, resulting in higher net income and funds from operations on a total and per Unit basis in 2005 compared to 2004. Only the first quarter of 2005, with the impact of the coker shutdown, showed lower net income and funds from operations on both a total and per Unit basis relative to the same 2004 quarter.

Material variances in financial results between 2005 and 2004 are explained further in the following sections of this MD&A. Canadian Oil Sands considers material information to be any information relating to the business of the Trust and its subsidiaries that would reasonably be expected to have a significant influence on an investor's investment decision. We believe users of

SUMMARY OF QUARTERLY RESULTS

($ millions, except per Unit amounts)			2005		
	Q1	Q2	Q3	Q4	Annual
Revenues, after transportation and marketing expense	343.1	492.2	612.3	519.3	1,966.9
Net income	58.6	218.6	380.2	173.6	831.0
Net income per Unit, Basic	0.64	2.38	4.13	1.88	9.04
Net income per Unit, Diluted	0.64	2.37	4.12	1.87	9.01
Funds from operations	93.0	283.8	364.0	264.0	1,004.8
Funds from operations per Unit	1.02	3.09	3.96	2.86	10.93

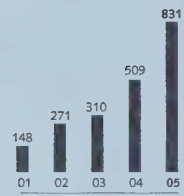
			2004		
	Q1	Q2	Q3	Q4	Annual
Revenues, after transportation and marketing expense	318.5	340.8	359.3	333.4	1,352.0
Net income	103.4	98.0	185.7	122.1	509.2
Net income per Unit, Basic	1.18	1.12	2.06	1.34	5.72
Net income per Unit, Diluted	1.18	1.12	2.06	1.34	5.72
Funds from operations	141.8	155.0	157.4	121.6	575.8
Funds from operations per Unit	1.62	1.77	1.75	1.33	6.47

our financial results consider critical information to be that which explains the Trust's funds from operations and free cash flow, which is available for distribution to Unitholders, for reinvestment in growth through expansions or acquisitions, or for repayment of debt. We endeavour to identify and provide in our MD&A, financial statements, and guidance documents on a timely basis and in an understandable form, the factors that impact our funds from operations and free cash flow, namely: crude oil prices, production volumes, our SSB sales price relative to WTI prices, hedging impacts, costs of operations, financing costs, capital and other relevant costs.

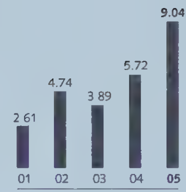
REVIEW OF CONSOLIDATED RESULTS

Canadian Oil Sands reported record results in 2005, outperforming prior year's net income and funds from operations on both a total and per Unit basis. Net income in 2005 rose to $831 million, or $9.04 per Unit, from $509 million, or $5.72 per Unit, in 2004. Funds from operations increased 75 per cent to $1,005 million, or $10.93 per Unit, from $576 million, or $6.47 per Unit in 2005 and 2004, respectively. The improved financial results reflect a higher, fully unhedged 2005 realized SSB selling price compared to 2004, partially mitigated by a 10 per cent decrease in sales volumes. Higher net revenues in 2005 were also partially offset by increases in operating costs, non-production costs, and DD&A compared to 2004 as well as lower foreign exchange gains and future income tax recoveries than 2004, as shown in the table below. Funds from operations were impacted by the same factors, excluding DD&A, unrealized foreign exchange gains, and future income taxes as they are non-cash items.

($ per bbl)	2005	2004	$ Change
Average realized selling price, after hedging	70.91	43.68	27.23
Operating costs	(26.34)	(19.40)	(6.94)
Crown royalties	(0.71)	(0.58)	(0.13)
Netback	43.86	23.70	20.16
Non-production cost	(3.06)	(1.55)	(1.51)
Administration and insurance	(0.73)	(0.58)	(0.15)
Interest, net	(3.74)	(3.08)	(0.66)
Depletion, depreciation and accretion	(7.13)	(5.55)	(1.58)
Foreign exchange gain	1.05	2.57	(1.52)
Current and future income tax	(0.29)	0.94	(1.23)
	(13.90)	(7.25)	(6.65)
Net income per barrel	29.96	16.45	13.51



NET INCOME
($ MILLIONS)



NET INCOME – BASIC
($ PER UNIT)

Net income before unrealized foreign exchange (gains) losses and future income tax expense (recoveries), which management believes is a better measure of operational performance than net income, was $796 million, or $8.66 per Unit in 2005, an improvement of $403 million, or $4.39 per Unit compared to the prior year. The table below reconciles this measure to net income.

($ millions)	2005	2004	$ Change
Net income per GAAP	831.0	509.2	321.8
Deduct:			
Unrealized foreign exchange gains on long-term debt	(35.6)	(89.2)	53.6
Future income tax expense (recovery)	0.4	(27.3)	27.7
Net income before unrealized foreign exchange and future income taxes	795.8	392.7	403.1

The net income before unrealized foreign exchange and future income taxes reflected in the previous table is a measurement that is not defined by Canadian generally accepted accounting principles ("GAAP"). The Trust also reports funds from operations, free cash flow, and Unitholder distributions on both a total and per Unit basis, which are measures that do not have any standardized meaning under Canadian GAAP. Funds from operations are calculated on the Trust's consolidated statement of cash flows as cash from operating activities before changes in working capital. Free cash flow is calculated as funds from operations less capital expenditures and reclamation trust contributions in the period. In management's opinion, funds from operations is a key performance indicator of the Trust's ability to generate cash to fund capital expenditures, while free cash flow is a key indicator of the Trust's ability to repay debt and pay distributions. The net income before foreign exchange and future income taxes in the previous table and the Trust's funds from operations may not be directly comparable to similar measures presented by other companies or trusts.

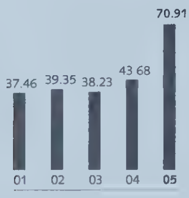
Consolidated results compared to the prior year's annual report outlook

The Trust's $1,005 million 2005 funds from operations was 73 per cent higher than the $580 million forecast in the 2004 annual report. Significantly higher net revenue was the main factor contributing to the strong 2005 performance, partially offset by higher operating costs.

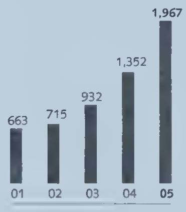
Total net revenues in 2005 were $1,967 million, surpassing our 2004 annual report estimate of $1,400 million. The better than forecast results were attributed to the improvement in U.S. WTI prices that averaged US$56.70 per barrel, over US$16 per barrel higher than our US$40 per barrel forecast. Higher crude prices were somewhat offset by a stronger Canadian dollar relative to our forecast $0.80 U.S./Cdn foreign exchange rate. Syncrude production volumes were also lower than the 83 million barrel forecast at 78.1 million barrels, which further reduced actual net revenues.

Our 2004 annual report operating cost estimate for 2005 was $20.72 per barrel, based on a natural gas cost of $7.00 per GJ and the 83 million barrel Syncrude annual production estimate. By October 25, 2005 we had revised our operating cost outlook to $27.02 per barrel reflecting lower than anticipated production as well as an increase in estimated 2005 natural gas prices to $8.63 per GJ. Actual costs of $26.34 per barrel were in line with the revised guidance.

Capital expenditures in 2005 were $800 million, or $109 million higher than the 2004 annual report forecast, mainly as a result of cost escalation on the Stage 3 project.



AVERAGE REALIZED SELLING PRICE AFTER HEDGING
($ PER BBL)



REVENUES AFTER TRANSPORTATION, MARKETING EXPENSE AND HEDGING
($ MILLIONS)

Revenues, after transportation and marketing expense

($ millions)	2005	2004	$ Change	% Change
Sales revenue	1,983.6	1,658.2	325.4	20
Transportation and marketing expense	(39.8)	(44.9)	5.1	(11)
	1,943.8	1,613.3	330.5	20
Crude oil hedging gains (losses)	–	(274.3)	274.3	(100)
Currency hedging gains (losses)	23.1	13.0	10.1	78
Total hedging gains (losses)	23.1	(261.3)	284.4	(109)
Revenues, after transportation and marketing expense	1,966.9	1,352.0	614.9	45
Sales volumes (millions of bbls)	27.7	31.0	(3.3)	(10)
($ per bbl)				
Sales revenue	71.51	53.57	17.94	33
Transportation and marketing expense	(1.43)	(1.45)	0.02	(1)
Realized selling price before hedging losses	70.08	52.12	17.96	34
Crude oil hedging gains (losses)	–	(8.86)	8.86	(100)
Currency hedging gains (losses)	0.83	0.42	0.41	98
Total hedging gains (losses)	0.83	(8.44)	9.27	(110)
Total realized selling price	70.91	43.68	27.23	62

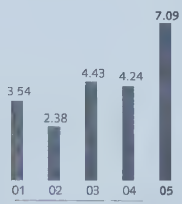
Sales revenue reflects sales volumes and prices at the point of delivery. Revenue after deducting transportation and marketing fees reflects the realized selling price at the Syncrude plant gate.

Revenues after transportation and marketing expense and before hedging were $1,944 million in 2005, an increase of $331 million compared to the same 2004 period, resulting mainly from a higher realized selling price, partially offset by lower SSB sales volumes and a stronger Canadian dollar. Sales volumes averaged approximately 76,000 barrels per day in 2005, compared to about 85,000 barrels per day in the 2004 calendar year. The advanced Coker 8-2 shutdown, the vacuum distillation unit revamp and maintenance activity and turnarounds on the heavy gas oil hydrotreaters significantly impacted 2005 production, compared to the annual production record set by Syncrude in 2004.

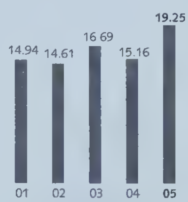
The average WTI crude price rose 37 per cent to US$56.70 per barrel in 2005 from US$41.47 per barrel in 2004. The stronger Canadian dollar somewhat mitigated the WTI price increase, averaging $0.83 U.S./Cdn in 2005, up from $0.77 U.S./Cdn in 2004. The 2005 SSB price also reflects a weighted-average premium of $1.05 per barrel against average Canadian dollar WTI versus a 2004 discount of $1.53 per barrel. We believe that the improvement in our 2005 price differential relative to 2004 primarily reflects the lower supply of light synthetic crude oil from a number of producers during much of 2005.

REALIZED PRICE COMPARED TO CANADIAN DOLLAR WTI

Our 2005 revenues fully reflected the higher 2005 crude oil price environment relative to 2004 as we had no crude oil price hedges in place. In contrast, 2004 revenues were reduced by $274 million, or $8.86 per barrel, as a result of crude oil hedging losses. Overall, total hedging activities, including currency hedges, contributed $23 million, or $0.83 per barrel to our revenues and funds from operations in 2005, compared to a crude oil and currency hedge reduction in revenues and funds from operations of $261 million, or $8.44 per barrel in 2004. Our crude oil and foreign currency hedging activity is more fully discussed in the Risk Management section of this MD&A.



PURCHASED ENERGY COSTS BEFORE HEDGING ($ PER BBL)



PRODUCTION COSTS ($ PER BBL)

Operating costs

Operating costs increased to $731 million, or $26.34 per barrel in 2005, compared to $601 million, or $19.40 per barrel in 2004. The 2005 increase resulted mainly from higher purchased energy costs, turnaround costs and Syncrude incentive compensation costs.

The following table breaks down unit operating costs into its major components and shows bitumen costs on both a per barrel of bitumen and per barrel of SSB produced basis. This allows investors to better compare Syncrude's unit costs to other oil sands producers. As there are no definitions of what constitutes operating costs, different cost accounting and capitalization treatments are used among producers.

	2005 $ per bbl Bitumen	**2005** $ per bbl SSB	**2004** $ per bbl Bitumen	**2004** $ per bbl SSB
Bitumen Costs [1]				
Overburden removal	1.82		1.78	
Bitumen production	7.39		6.12	
Purchased energy [3]	3.18		1.89	
	12.39	14.95	9.79	11.58
Upgrading Costs [2]				
Bitumen processing and upgrading		3.93		3.27
Turnaround and catalysts		2.53		0.71
Purchased energy [3]		3.25		2.00
		9.71		5.98
Other and research		1.93		1.05
Change in treated and untreated inventory		(0.46)		0.05
Syncrude reported operating costs		26.13		18.66
Canadian Oil Sands adjustments [4]		0.21		0.74
Total operating costs		26.34		19.40
Syncrude production volumes (thousands of barrels per day)	258	214	282	238

[1] Bitumen costs relate to the removal of overburden, oil sands mining, bitumen extraction and tailings dyke construction and disposal costs. The costs are expressed on a per barrel of bitumen production basis and converted to a per barrel of SSB based on the yield of SSB from the processing and upgrading of bitumen. All overburden stripping costs are expensed in the period incurred

[2] Upgrading costs include the production and ongoing maintenance costs associated with processing and upgrading of bitumen to SSB. It also includes the costs of major refining equipment turnarounds and catalyst replacement, which are expensed.

[3] Natural gas costs averaged $8.40 per GJ and $6.28 per GJ in 2005 and 2004, respectively

[4] Canadian Oil Sands' adjustments mainly pertain to Syncrude-related pension costs, property insurance costs, site restoration costs, as well as the inventory impact of moving from production to sales as Syncrude reports per barrel costs based on production volumes and we report based on sales volumes

The operating cost table, which reflects costs on both a per barrel of bitumen and SSB basis, indicates the most significant changes in 2005 over 2004 were the increases in bitumen production costs, turnaround and catalyst costs, and purchased energy costs in both the bitumen and upgrading areas of the operation.

Bitumen costs are relatively fixed once a plan is established to produce a targeted level of production. These costs rose $2.60 per barrel of bitumen to $12.39 per barrel in 2005, largely due to the reduced volumes required as a result of the extended coker turnaround, sulphur plant pump problems, maintenance on the heavy gas oil hydrotreaters, the vacuum distillation unit shutdown and throughput restrictions, and higher purchased energy costs. By comparison, bitumen volumes in 2004 reflected stable operations and were not reduced by a coker shutdown.

Turnaround, maintenance and repair activity in 2005, including the Coker 8-2 turnaround and the vacuum distillation unit revamp and maintenance, added $1.82 per barrel of SSB in 2005 to reach $2.53 per barrel compared to $0.71 per barrel of SSB in 2004. No coker turnaround occurred in 2004, but an extended turnaround was performed on Syncrude's LC-Finer unit in the fall of 2004; subsequently, the unit was shut down in December as a result of a power outage. This LC-Finer shutdown carried over into 2005, contributing to the overall turnaround activity in both years. The increased maintenance activity also substantially reduced 2005 production volumes relative to 2004, thereby increasing the 2005 per barrel operating cost.

A portion of Syncrude Canada's long-term incentive compensation is based on the market return performance of several Syncrude owners' shares/units. The resulting incentive plan valuation changes are recorded as operating cost increases or decreases. Strong return performance of the Syncrude owners' securities during 2005 added approximately $70 million, $25 million net to the Trust, to operating costs, which is reflected in the $0.88 per barrel of SSB increase in the other and research line of the operating cost table. A mark-to-market revaluation of the Syncrude Canada incentive plan is recorded in operating costs at each period end.

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Purchased energy costs rose $2.85 per barrel of SSB to $7.09 per barrel in 2005, as shown in the following table, which segregates purchased energy from the other operating costs.

	2005	2004	$ Change	% Change
	$ per bbl SSB	$ per bbl SSB	$ per bbl SSB	$ per bbl SSB
Production costs	19.25	15.16	4.09	27
Purchased energy	7.09	4.24	2.85	67
Total operating costs	26.34	19.40	6.94	36

			Change	% Change
	GJs per bbl SSB	GJs per bbl SSB	GJs per bbl SSB	GJs per bbl SSB
Purchased energy consumption	0.84	0.68	0.16	24

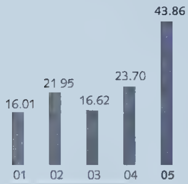
Purchased energy costs rose as natural gas prices increased 34 per cent to $8.40 from $6.28 per GJ in 2005 and 2004, respectively. The volume of purchased energy consumed per barrel of SSB also rose 24 per cent to 0.84 GJs per barrel in 2005 compared to 0.68 GJs per barrel in 2004 as turnaround and maintenance work reduced operational efficiency, some Stage 3 units began operating without fully contributing to production, and additional heat was used to enhance bitumen recovery. While the 2005 natural gas consumption per barrel includes some temporary increases, it is expected that long-term consumption going forward will be about 0.85 GJs per barrel versus historical consumption of about 0.7 GJs per barrel. Per unit purchased energy consumption is expected to rise following the completion of Stage 3 as bitumen will increasingly be sourced from the Aurora mine, which relies mainly on purchased natural gas for its energy needs. Due to Aurora's remote location, process heat from the upgrader is unavailable for use at Aurora. As well, additional hydrogen will be used to increase product quality from SSB to SSP.

Non-production costs

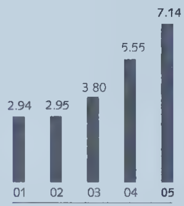
Non-production costs consist primarily of development expenditures relating to capital programs, which are expensed, such as commissioning costs, pre-feasibility engineering, technical and support services, research and development, and regulatory and stakeholder consultation expenditures. Non-production costs rose to $85 million from $48 million in 2005 and 2004, respectively. As the Stage 3 expansion project nears completion, more of the units associated with this project are being commissioned and handed over to operations. The ready-for-operations team, which is responsible for this process, was increased in 2005 to handle the large volume of handovers, resulting in higher non-production costs compared to 2004.

Crown royalties expense

Crown royalties were slightly higher in 2005 than 2004 mostly as a result of the increase in gross revenues. Crown royalties expense continued to reflect the one per cent of gross revenue royalty rate in each of 2005 and 2004. Under Alberta's generic Oil Sand Royalty, the Crown royalty is calculated as the greater of one per cent of plant gate revenue before hedging or 25 per cent of plant gate revenue before hedging, less Syncrude operating, non-production and capital costs. As Syncrude nears the end of its Stage 3 expansion and capital expenditures are reduced, we expect to begin incurring royalties at the higher 25 per cent rate early in 2006.



NETBACK AFTER HEDGING ($ PER BBL)



DEPRECIATION, DEPLETION AND ACCRETION EXPENSE ($ PER BBL)

Administration

Administration expense rose by $4 million in 2005 to $12 million compared to 2004, primarily reflecting increased salaries and benefits resulting from higher short-term incentive compensation and additional employees at Canadian Oil Sands.

Interest expense, net

($ millions)	2005	2004	$ Change	% Change
Interest expense	106.5	98.9	7.6	8
Interest income and other	(2.7)	(3.6)	0.9	(25)
Interest expense, net	103.8	95.3	8.5	9

Net interest expense increased by $9 million to $104 million in 2005 compared to 2004, primarily reflecting higher average debt levels as a result of spending on our Stage 3 expansion program.

Depreciation, depletion and accretion expense

($ millions)	2005	2004	$ Change	% Change
Depreciation and depletion	168.5	170.3	(1.8)	(1)
Accretion expense	29.2	1.6	27.6	1,725
	197.7	171.9	25.8	15

We depreciate and deplete our production assets and future development costs on a unit-of-production basis, based on proved plus probable reserves as National Instrument 51-101 provides that the total of proved plus probable reserves is the most likely estimate of an entity's reserve base.

Excluding accretion expense, depreciation and depletion ("D&D") expense decreased $2 million in 2005 compared to 2004. Production in 2005 was approximately three million barrels lower than 2004, more than offsetting the rise in the effective D&D rate to $6.08 per barrel in 2005 from $5.50 per barrel in 2004. The higher 2005 D&D rate reflects estimates of the Trust's future development costs as provided for in the Trust's December 31, 2004 independent reserves report.

Subsequent to December 31, 2005 Canadian Oil Sands' 2005 reserve report was completed by independent reserve evaluators. The reserve report resulted in no significant revisions in our reserve base with proved plus probable reserves totalling 1.8 billion barrels. We estimate the 2006 D&D rate will rise to approximately $7.25 per barrel, or approximately $257 million in D&D expense, based on our 2006 production outlook of 35.5 million barrels net to the Trust. Increased costs on the Stage 3 expansion, higher estimated costs for the Syncrude emission reduction project, and higher levels of sustaining capital are the main factors contributing to the D&D rate increase. The Trust's December 31, 2005 independent reserves report is outlined in the Trust's Annual Information Form and can be found at www.sedar.com, or on our web site at www.cos-trust.com.

Accretion expense increased $28 million in 2005 compared to 2004. A $24 million adjustment was recorded to correct accretion expense on the ARO over the period January 1, 1996 to December 31, 2004. While $20 million of this adjustment relates to periods prior to the January 1, 2004 adoption of the new ARO accounting policy, the entire amount was reflected in the current period since it is not considered significant. This accretion expense contributed to the ARO increase as at December 31, 2005 as disclosed in Note 8 of the consolidated financial statements.

Canadian Oil Sands deposits $0.1322 per barrel of production into a mining reclamation trust account for its 35.49 per cent Syncrude working interests. Including interest earned on the trust account, the reclamation fund account totalled $25 million at December 31, 2005 as shown on the Consolidated Balance Sheet under the heading "Reclamation trust".

Foreign exchange gains and losses

As required by GAAP, U.S. denominated monetary balances are revalued at the foreign exchange rate at each period end, and the translation gains or losses are recorded in the current period net income.

During 2005 and 2004, we had US$944 million of U.S. denominated long-term debt, and foreign exchange gains and losses in each of those years are mainly the result of revaluations of this U.S. denominated debt caused by fluctuations in U.S. and Canadian exchange rates. Unrealized foreign exchange gains on long-term debt of $36 million and $89 million were recorded in 2005 and 2004, respectively, as the Canadian dollar strengthened from the prior year-end in each of these years. We also have U.S. denominated cash, accounts receivable, and interest payable accounts that are revalued at the end of each period. Transactions on these accounts give rise to realized foreign exchange gains and losses, which comprise the remaining balance of the foreign exchange gains and losses on the income statement.

Income and large corporations tax

Income and Large Corporations tax increased $10 million in 2005 compared to 2004, mainly as the result of a $9 million recovery in 2004. The recovery pertained to a reimbursement by the Trust's former tax service provider for a tax liability the Trust incurred in 2003 as a result of an error in the Trust's 2001 tax return. The full amount of the settlement in 2004 was approximately $10 million, which included $1 million related to the reimbursement of the interest and penalties the Trust originally paid on the tax liability.

At the Unitholder level, distributions made from the Trust are either taxable to Unitholders or tax-deferred. Tax-deferred treatment reduces the Unitholders' tax-cost base. For the distributions related to 2005, 95 per cent of distributions were taxable, and five per cent were tax-deferred, unchanged from the prior year.

The taxable portion of distributions is dependent upon income and tax deductions available to shelter this income at both the Trust and the corporate level. The tax balances available for deduction are disclosed in Note 10 to the consolidated financial statements. We anticipate that the vast majority of future distributions will be taxable to Unitholders.

Future income tax

The difference between the accounting basis and tax basis for assets and liabilities is referred to as a temporary difference for purposes of calculating future income taxes. The future income tax liability of Canadian Oil Sands primarily represents the temporary difference between the book value of capital assets and tax pools of the Trust's subsidiaries at the substantively enacted tax rates as at December 31, 2005. The future income tax liability recorded on the Trust's Consolidated Balance Sheet is a requirement under GAAP, but is not expected to result in cash taxes being paid by Canadian Oil Sands in the future.

In 2005, we recorded a small non-cash future income tax expense primarily due to the January 1, 2005 organizational restructuring, offset by changes in temporary differences. In the same period of 2004, a future income tax recovery of $27 million was recorded, of which $10 million resulted from a decrease in the Alberta corporate tax rate announced during the period with the remaining balance primarily due to changes in temporary differences.

CRITICAL ACCOUNTING ESTIMATES

A critical accounting estimate is considered to be one that requires us to make assumptions about matters that are uncertain at the time the accounting estimate is made, and if different estimates were used, would have a material impact on our financial results. Canadian Oil Sands makes numerous estimates in its financial results in order to provide timely information to users. However, the following estimates are considered critical:

a) Canadian Oil Sands must estimate the reserves it expects to recover in the future. Our reserves are evaluated and reported on by independent petroleum reserve evaluators who evaluate the reserves using various factors and assumptions, such as forecasts of mining and extraction recovery and upgrading yield based on geological and engineering data, projected future rates of production, projected operating costs and oil price differentials, and timing and amounts of future development costs, all of which are subjective. Although reserves and forecasts of future net revenue are estimates, we believe that the factors and assumptions used in the estimates are reasonable based on the information available at the time that the estimates are prepared. The reserves data is reviewed by management, our own engineer, our Audit Committee, which acts as our reserves committee, and our Board of Directors.

As circumstances change and new information becomes available, the reserves data could change. After having independent reserve reports completed for years 2000, 2003, 2004, and 2005 our proved reserves overall have not changed significantly in the last five years, with the exception of adding a pro rata increase to our reserve base related to the additional 13.75 per cent working interest acquisition in 2003. However, future actual results could vary greatly from our estimates, which could cause material changes in our unit-of-production DD&A rates and asset impairment tests, all of which use the reserves and/or future net cash flows in the respective calculations. If proved plus probable reserves were 10 per cent lower, DD&A expense would have been approximately $19 million higher in 2005. Our impairment test is based on proved reserves, and had such reserves been 10 per cent lower, there still would not have been any impairment as of December 31, 2005.

b) Canadian Oil Sands records its asset retirement obligation and corresponding asset based on the estimated discounted fair value of its 35.49 per cent share of Syncrude's future cash flows that will be required for reclamation of each of Syncrude's mine sites. In determining the fair value, Canadian Oil Sands must estimate the amount of the future cash payments, the timing of when those payments will be required, and then apply an appropriate credit-adjusted risk free rate. Given the long reserve life of Syncrude's leases, the reclamation expenditures will be made over approximately the next 60 years, and it is difficult to estimate the timing and amount of the reclamation payments that will be required as they will occur far into the future.

   Any changes in the anticipated timing or the amount of the payments subsequent to the initial obligation being recorded results in a change to our asset retirement obligation and corresponding asset. Such changes will impact the accretion of the obligation and the depreciation of the asset and will correspondingly impact net income. The asset retirement obligation is more fully described in Note 9 to the Consolidated Financial Statements.

c) Canadian Oil Sands accrues its obligations for Syncrude Canada's post-employment benefits utilizing actuarial and other assumptions to estimate the projected benefit obligation, the return on plan assets, and the expense accrual related to the current period. The basic assumptions utilized are outlined in Note 5(a) to the consolidated financial statements. In addition, actuarial gains and losses are deferred and amortized into income over the expected average remaining service lives of employees, which was estimated to be 13 years. Actual costs related to Syncrude Canada's employee benefit plans could vary greatly from the amounts accrued for the pension obligation and the plan assets. If Canadian Oil Sands had recognized the actuarial losses immediately into income, pension and other post-employment expense would have increased from $28 million to approximately $71 million in 2005. In addition, the accrued benefit liability on the Consolidated Balance Sheet would have increased from $99 million to $250 million. Canadian Oil Sands does not have a pension plan for its own employees. Therefore, all of the employee future benefits liabilities and expenditures relate to its working interest share of Syncrude Canada's pension benefit plan and post-employment plan obligations.

d) Canadian Oil Sands must estimate its future tax liability at the end of each reporting period based on estimates of temporary differences, when those temporary differences are expected to reverse, and the tax rates at which they will reverse. However, actual tax rates at which the temporary differences will reverse and the amount of the temporary differences may differ from our estimates, which may result in material changes in our future income tax liability and future income tax expense or recovery. While these changes may impact net income, we do not believe there will be any impact on the future cash taxes Canadian Oil Sands will pay.

CHANGE IN ACCOUNTING POLICIES

There were no significant changes to the Trust's accounting policies during the 2005 calendar year.

NEW ACCOUNTING PRONOUNCEMENTS

We do not anticipate any significant changes to our accounting policies in 2006 as a result of new accounting pronouncements which have been issued. While there have been changes proposed by the Accounting Standards Board (the "AcSB") to the calculations of diluted net income per Unit for the 2006 year, as at February 22, 2006, the amendments have not been finalized. We do not expect there to be any material impact on our diluted net income per Unit results if the changes do come into effect as the Trust has few options outstanding relative to its total Units.

On December 9, 2004 the CICA issued EIC-150 "Determining Whether an Arrangement Contains a Lease", which was effective for the Trust as of January 1, 2005 for new contracts, arrangements, or amendments to existing contracts entered into after that date. Recording of long-term pipeline transportation contracts had the most significant potential to change under EIC-150, but after evaluation, the contracts were not deemed to be capital leases. As a result, there were no changes to the Trust's accounting.

On April 1, 2005 the AcSB issued new CICA Handbook Sections 1530 *Comprehensive Income*, 3855 *Financial Instruments – Recognition and Measurement* and Section 3865 *Hedges*. The adoption date for said changes will be January 1, 2007 for Canadian Oil Sands. The standards prescribe the timing and measurement that an entity must utilize to recognize a financial instrument in the financial statements. Canadian Oil Sands is in the process of assessing the financial and presentation impact of these changes but does not anticipate any significant changes.

LIQUIDITY AND CAPITAL RESOURCES

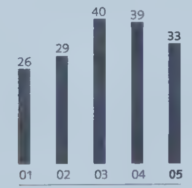
($ millions)	2005	2004
Long-term debt	1,737.3	1,699.8
Less: Cash and short-term investments	88.0	17.8
Net debt	1,649.3	1,682.0
Unitholders' equity	3,382.6	2,635.9
Total capitalization [1]	5,031.9	4,317.9

[1] Net debt plus Unitholders' equity

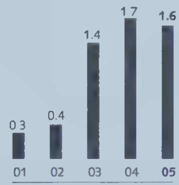
Canadian Oil Sands' capital structure continues to improve as it executes its financing plan. The Trust benefited from high crude oil prices in 2005, which resulted in an improved financial position at December 31, 2005. Additional equity built in 2005 raised the Trust's capitalization by $714 million, with net debt to total capitalization improving to about 33 per cent at December 31, 2005 compared to 39 per cent at December 31, 2004. Net debt declined during the year as funds from operations exceeded capital spending and net distributions, and a stronger Canadian dollar reduced the carrying value of our U.S. dollar denominated long-term debt. The Trust's Premium distribution, distribution reinvestment and optional unit purchase plan ("DRIP") generated $99 million in new equity in 2005.

As part of our ongoing compliance under our debt and credit facilities, we monitor our net debt to total capitalization ratio. We also consider net debt to cash flow to be a key measure of financial leverage.

Financial Leverage Ratios	2005	2004
Net debt to cash flow (times)	1.6	2.9
Net debt to total capitalization (%)	33	39



NET DEBT TO TOTAL CAPITALIZATION AT DECEMBER 31 (%)



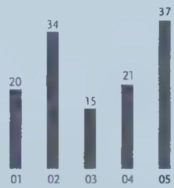
NET DEBT AT DECEMBER 31 ($ BILLIONS)

A key benchmark used to evaluate the Trust's performance is return on average productive capital employed ("ROCE"), which is a measure of the returns the Trust realizes on its assets that are in productive use. In calculating ROCE, we exclude major projects that are not yet used in production, such as the Upgrader Expansion component of the Stage 3 expansion. The Trust's ROCE, and also its return on average Unitholders' equity, improved in 2005 over 2004 primarily as a result of higher realized SSB sales prices.

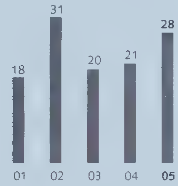
Performance Management Ratios	2005	2004
Return on average Unitholders' equity (%)	28	21
Return on average productive capital employed (%) [1]	37	21
Return on average capital employed (%) [2]	19	13

[1] Calculated as net income before net interest expense, foreign exchange and future income taxes, divided by average productive capital employed, which excludes major projects not yet in use

[2] Calculated as net income before net interest expense, foreign exchange, and future income taxes divided by average capital employed



RETURN ON AVERAGE PRODUCTIVE CAPITAL EMPLOYED (%)

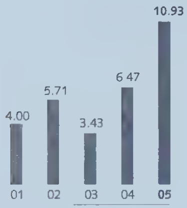


RETURN ON AVERAGE UNITHOLDER EQUITY (%)

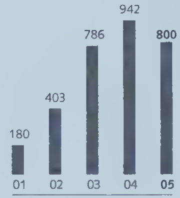
Canadian Oil Sands has $134 million drawn on its unsecured credit facilities and letter of credit facility, leaving approximately $741 million of available credit facilities. In addition, we had approximately $88 million of cash and short-term investments at December 31, 2005.

Funds from operations continue to be an important source of funding for the Trust. In 2005, funds from operations totalled $1,005 million, or $10.93 per Unit, compared to $576 million, or $6.47 per Unit in 2004. A decrease in 2005 sales volumes relative to the same period in 2004 was more than offset by the strong, unhedged realized sales price for our SSB product. Funds from operations were sufficient to fund the $800 million of capital expenditures and the $131 million of Unitholder distributions, net of DRIP proceeds, paid in 2005. The remaining funds from opera-

tions, combined with draws on our operating credit facilities, were used to fund an increase in working capital requirements, primarily resulting from higher SSB sales prices.



FUNDS FROM OPERATIONS
($ PER UNIT)



CAPITAL EXPENDITURES
($ MILLIONS)

A significant component of our financing plan for the Stage 3 Syncrude expansion is the DRIP as it enables the Trust to raise new equity at a relatively low cost with no dilution to Unitholders, given their ability to participate, and it supports the Trust's ability to maintain distribution levels during the expansion period. DRIP participation increased to 43 per cent in 2005 from approximately 33 per cent in the prior year, and generated about $99 million in new equity through the issuance of 1.1 million Units, compared with approximately $60 million and 1.3 million Units in 2004. Since inception of the DRIP in 2002, the issuance of 4.6 million Units has generated $239 million.

The Trust's DRIP helps to accelerate debt reduction and the Trust currently intends to maintain the DRIP in its present form until at least the target net debt level is achieved. The DRIP has been an important component in the Trust's financing plan for the Stage 3 expansion and may play a role in the Trust's future financing plans.

The Trust's financing strategy remains unchanged with a clear focus on debt reduction towards a net debt target of about $1.2 billion. Based on our 2006 outlook, disclosed in detail later in this report, we anticipate that the net debt target will be reached by the end of 2006. The Stage 3 project is nearing completion, and while the overall cost continues to trend higher, we believe the magnitude of potential cost increases has narrowed substantially. Additional sales from Stage 3 production are expected in mid-2006 and should result in significant free cash flow to support our finance plan.

Capital expenditures

In 2005, capital expenditures totalled $800 million compared to $942 million in 2004. Stage 3 continued to comprise the majority of expenditures, amounting to about 70 per cent and 75 per cent of the 2005 and 2004 totals, respectively. As at December 31, 2005, construction on the Upgrader Expansion was more than 98 per cent complete and the Syncrude Joint Venture had expended approximately $8.1 billion of the total $8.4 billion estimated Stage 3 project cost, which includes $0.7 billion for the Aurora 2 Mining Train completed in late 2003. Net to Canadian Oil Sands, the total cost for Stage 3 is equivalent to approximately $3.0 billion, with $2.9 billion expended to the end of 2005.

The Trust also incurred $142 million of capital expenditures in 2005 related to the South West Quadrant Replacement ("SWQR") project compared to approximately $133 million in 2004. The SWQR is designed to replace bitumen production from the dragline and bucket-wheel operations in the southwest quadrant of the Base Mine, which is expected to be exhausted in mid-2006. The SWQR was largely completed in December 2005.

Syncrude has increased its estimate for the Syncrude emissions reduction project to $772 million, or approximately $274 million net to the Trust. The project was originally announced on May 21, 2003 at a projected cost of $400 million gross to Syncrude. That estimate was made prior to the completion of detailed technology feasibility and engineering studies. Those studies are now complete and project scope is fixed. The new estimate includes the latest engineering and construction information, including contingencies and escalation.

The emissions reduction project is expected to significantly reduce total sulphur dioxide emissions as well as other emissions, such as particulate matter and metals. It will involve retrofitting sulphur reduction technology into the operation of Syncrude's two existing cokers. Procurement and construction expenditures are scheduled to occur post 2005 following completion of the Stage 3 expansion and extend into 2009 to tie-in with equipment turnaround schedules. The new coker that is part of the Stage 3 Upgrader Expansion already includes a sulphur dioxide reduction unit. These measures are expected to reduce sulphur dioxide emissions by up to 60 per cent from today's approved levels of 250 tonnes per day. The resulting sulphur dioxide emissions are also expected to fall below new maximum emission levels that will take effect following the completion of the Syncrude emissions reduction program.

Our annual capital expenditure forecast for 2006 is $303 million, which is approximately $497 million lower than the annual capital expenditures incurred in 2005. The decrease reflects the lower capital expenditures of the Stage 3 project and completion of the SWQR. Our capital expenditure forecast is discussed more fully in the Outlook section of this MD&A. In addition to our other contractual obligations, the table below outlines the purchase commitments we have in place related to Stage 3, the Syncrude emission reduction program, and other projects.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We have assumed various contractual obligations and commitments in the normal course of our operations. The following table displays the significant financial obligations that were known as of December 31, 2005, which represent future cash payments that we are required to make under existing contractual agreements that we have entered into either directly, or as an owner in the Syncrude Joint Venture. There have been no significant changes to the Trust's contractual obligations and commitments as of February 22, 2006.

		Payments due by period			
($ millions)	Total	< 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	1,737	–	918	92	727
Stage 3 expenditure obligations [1]	122	122	–	–	–
Capital expenditure commitments [2]	308	83	225	–	–
Pension plan solvency deficiency payments [3]	25	8	17	–	–
Other obligations [4]	1,409	250	503	81	574
	3,601	464	1,663	173	1,301

[1] The total estimated cost of the Stage 3 expansion is approximately $3.0 billion, net to the Trust, of which we have spent approximately $2.9 billion as of December 31, 2005

[2] Capital expenditures commitments are comprised of our 35.49 per cent share of Syncrude's emissions reduction program as well as other miscellaneous items

[3] We are responsible for funding our 35.49 per cent share of Syncrude Canada s registered pension plan solvency deficiency, which was confirmed in the December 31, 2003 actuarial valuation that was completed in 2004

[4] These obligations primarily include our 35.49 per cent share of the minimum payments required under Syncrude's commitments for natural gas purchases and pipeline cost of service fees. Other items include annual disposal fees for the flue gas desulphurization unit and capital and operating lease obligations. Asset retirement obligations are not included in these amounts

UNITHOLDERS' CAPITAL

Canadian Oil Sands Units trade on the Toronto Stock Exchange under the symbol COS.UN. The Trust had 92.5 million Units outstanding at December 31, 2005, and with the Unit price closing at $126 on that date, the market capitalization of the Trust was approximately $12 billion. A table summarizing the Units issued in 2005 is included in Note 11 of the Consolidated Financial Statements.

During the Stage 3 expansion at Syncrude, we have utilized debt and equity financing to partially fund capital expenditures to the extent funds from operations were insufficient to fund the Trust's distributions, capital expenditures, and working capital changes. Such financings are disclosed as "non-acquisition financing, net" on the Unitholder distributions schedule included in Note 14 to the Consolidated Financial Statements.

Unitholder distributions related to 2005 were $184 million, or $2 per Unit, compared with $180 million or $2 per Unit in 2004. Historically, the Trust has accrued the distribution made to Unitholders as a payable at each quarter end even though the distribution was not actually paid until the subsequent quarter. This resulted in Unitholders receiving a distribution in February of a given year but having the taxable portion of such distribution payment be treated as income for the prior tax year. Having considered market practice and having received advice from legal counsel, Canadian Oil Sands amended the Trust Indenture to allow, commencing with distribution payments in 2006, the Trust to distribute all income, less applicable expenses, received or expected to be received in a given quarter as a distribution to Unitholders and thereby to record such distribution in the quarter paid. As a result, the financial statements for the year ended December 31, 2005 do not reflect a distribution payable at December 31, 2005. The distribution that was declared on January 25, 2006 and payable on February 28, 2006 to holders of record on February 6, 2006 will be reflected in the financial statements for the three months ended March 31, 2006 rather than in the quarter ended December 31, 2005.

This change in how Unitholder distributions are recorded has no impact on the ultimate distributions declared and paid to the Unitholders or on the timing of such payments, nor does it impact Canadian Oil Sands' net income or funds from operations. Rather, it provides symmetry of Unitholders being taxed and receiving payment of a distribution in the same quarter. The Trust expects that this should eliminate some of the confusion that certain Unitholders previously had with regard to the timing and taxability of the distribution payment made in the first quarter of each year. A full copy of the current Trust Indenture can be found at www.cos-trust.com under corporate governance, or at www.sedar.com.

Canadian Oil Sands issues Unit options ("options") as part of its long-term incentive plan for employees. There were 99,000 options granted in 2005 with a fair value of $1.1 million and 102,500 options granted in 2004 with a fair value of $0.7 million. On January 25, 2006 another 38,175 options were granted with a fair value of approximately $1 million. As of January 25, 2006 there were 522,692 options outstanding, representing less than one per cent of Units outstanding. See Note 12 to the Consolidated Financial Statements for more detailed option information. Each option represents the right of the optionholder to purchase a Unit at the exercise price determined at the date of grant. For options granted after June 1, 2005, the exercise price is reduced by distributions over a threshold amount. The options vest by one-third following the date of grant for the first three years and expire seven years from the date of grant. More information on Canadian Oil Sands' options plans can be found in the annual proxy circulars for the annual meetings held in 2004 and 2005 at www.sedar.com or on Canadian Oil Sands' website at www.cos-trust.com.

RISK MANAGEMENT

There are many financial and operational risks inherent in the oil sands business, which include, but are not limited to: commodity price, currency exchange, interest rate, capital, credit, regulatory, operational and environmental risks. We take specific measures to manage these risks, particularly those that affect funds from operations and capital expenditures, as these have a direct impact on the Trust's distributable income available to Unitholders.

Commodity price risk

Crude oil price risk

We employed crude oil hedging as a risk mitigation strategy for our Stage 3 financing plan in 2004 and prior years. Our cash flows are impacted by changes in both the U.S. dollar denominated crude oil prices and U.S./Canadian foreign exchange rates. As a result, from time to time management has hedged both elements to reduce revenue and cash flow volatility to the Trust. These elements can be hedged separately with U.S. dollar WTI crude oil hedges and foreign currency hedges, which are outlined in the Foreign Currency Risk section of the Risk Management discussions in this MD&A, or by combining both elements with Canadian dollar oil price hedging transactions. We have used both strategies.

As Canadian Oil Sands did not have any 2005 crude oil price hedges, revenues were not impacted by crude oil hedging gains or losses and benefited fully from strong WTI prices. In comparison, crude oil hedging losses of $274 million, or $8.86 per barrel, were incurred in 2004. We had hedged 39,000 barrels per day, or approximately 43 per cent of our production in 2004 to assist in mitigating our financing risk associated with Stage 3 funding. The Trust's financing risk for the Stage 3 expansion has been reduced with the expansion nearing completion, the Trust's strong balance sheet, and continuing strength in energy prices. Therefore, as at February 22, 2006 and based on current expectations, the Trust remains unhedged on its crude oil price exposure. The Trust may hedge its crude oil production in the future depending on the business environment and our growth opportunities.

Effective January 1, 2004, Canadian Oil Sands adopted AcG-13 related to hedging relationships. Under the new guideline, our crude oil hedge positions qualified for hedge accounting and therefore there was no impact on our financial results for these positions as a result of the new guideline.

In the past few years there have been increases to the supply of synthetic crude oil from various other oil sands projects, and several additional projects are being contemplated. If and when these other projects are completed, there will be a significant increase in the supply of synthetic crude oil in the market. There is no guarantee there will be sufficient demand to absorb the increased supply without eroding the selling price, which could result in a deterioration of the price differential that Canadian Oil Sands may realize compared to benchmark prices such as WTI. Also, prices may decline to such an extent that our share of Syncrude's production is no longer economically viable. In response to growing volumes of synthetic crude oil and Syncrude's own expanding volumes following the Stage 3 completion, we likely will have to expand our markets to achieve the premium price we expect for our quality product. When Stage 3 is complete, a new aromatic saturation unit will be used to further upgrade our entire production into SSP. We expect this higher quality blend to be more attractive to refineries, which should enhance our price per barrel relative to SSB.

Also, the use of light sweet synthetics as a blend stock for bitumen to produce "synbit" is seen as a potential growing new market for SSB. Currently, heavy crude oil producers are shipping bitumen to U.S. refineries by adding condensate, which is expensive and in limited supply. Synbit, which is similar to medium sour crude, has developed as an alternative.

Natural gas price risk

Purchased natural gas is a significant component of the bitumen production and upgrading processes. Increases in natural gas prices therefore introduce the risk of significantly higher operating costs. To the extent crude oil prices and natural gas prices move together on a stable energy equivalent basis, natural gas price risk is mitigated as the Trust is significantly more levered to oil price increases. The main risk involves a de-linking of crude oil and natural gas price movements, such that gas prices are significantly higher than oil on an energy equivalent basis. The de-linking of crude oil and natural gas prices does occur, but historically these situations tend to be relatively short-term. The Trust has previously used natural gas hedge positions to mitigate this risk and will continue to assess the strategy as a means to manage operating cost increases. No natural gas hedges were utilized in 2005 or 2004, and as at February 22, 2006 we have no natural gas hedges in place.

Foreign currency risk

Our results are affected by fluctuations in the U.S./Canadian currency exchange rates as we generate revenue from oil sales based on a U.S. dollar WTI benchmark price. This revenue exposure is partially offset by interest costs in U.S. dollars on our U.S.-denominated debt, and our share of Syncrude's U.S. dollar vendor payments. When our U.S. Senior Notes mature, we will have exposure to U.S. exchange rates on the repayment of the notes. We have reduced our currency exchange risk by entering into contracts that fix our exchange rate in future years. At the present time we do not intend to increase our currency hedge positions. The details of our foreign currency contracts are more fully described in Note 15(a) of the consolidated financial statements. The existing positions are as follows:

	2006	2007
U.S. dollars hedged ($ millions)	$60.0	$20.0
Average U.S. dollar exchange rate	$0.669	$0.692

Canadian Oil Sands' revenues in 2005 include foreign currency hedging gains of $23 million, or $0.83 per barrel, compared to gains of $13 million, or $0.42 per barrel in 2004. The Canadian dollar averaged $0.83 and $0.77 U.S./Cdn in 2005 and 2004, respectively. There was no impact to our 2004 results due to adopting AcG-13 since our foreign currency hedges continue to qualify as hedges under the new guidelines.

In 1999 we exchanged gains on closing certain forward currency contracts for adjustments to the terms of other currency contracts. For accounting purposes, this position of realized gains is deferred and will be recognized as revenue over the period 2006 to 2016, which is when the original forward contracts would have expired. In 2005 approximately $6 million of gains have been deferred. Cumulatively, Canadian Oil Sands has deferred recognition of gains totalling $34 million to 2006 and beyond for net income purposes, but these amounts have been included in our funds from operations. The deferred balance is reflected in the Consolidated Balance Sheet under "Deferred currency hedging gains".

Interest rate risk

Interest rate changes impact our net income and cash flows based on the amount of floating rate debt outstanding. At December 31, 2005 we had $287 million of floating rate debt, comprised of $92 million drawn on our credit facilities, $20 million of floating rate medium term notes outstanding and $175 million of fixed rate debt, which was swapped into floating rate debt in January 2004. Any gains or losses related to the swaps will be recognized in the period the swaps are settled as they are considered hedges for accounting purposes.

Pursuant to AcG-13, the interest rate swaps which COSL entered relating to its US$70 million 7.625 per cent Senior Notes do not qualify as hedges under the new guidelines. As a result, a deferred asset and a corresponding deferred liability, each with a fair value of approximately $5 million, were recorded on January 1, 2004. As at December 31, 2005, the deferred asset and liability balances were $1.8 million and $2.0 million, respectively. The asset and liability are included on the Consolidated Balance Sheet under the headings "Deferred financing charges, net and other" and "Employee future benefits and other liabilities", respectively. At the end of each quarter, the fair value of the interest rate swap is calculated, with the change in value from the prior quarter end recorded as other income or expense and is included in "Interest, net" in the current quarter net income. The deferred liability is being amortized as the swap contracts settle, with the amortization included as a reduction to interest expense. The amounts related to the change in fair value and the amortization of the deferred liability are immaterial. These interest rate swaps expire on May 15, 2007.

Capital expenditure risk

Inherent in the mining of oil sands and production of synthetic crude oil is a need to make substantial capital expenditures. In addition to the potential of capital cost increases, we are exposed to financing risks associated with the funding requirements for our 35.49 per cent interest in Syncrude's capital program. We have historically minimized this risk by accessing diverse funding sources. Credit facilities, funds generated from operations, and proceeds from the DRIP are significant sources of funding available to us. In addition, the Trust has the ability to access public debt and equity markets.

Credit risk

Crude oil sales revenue credit risk is managed by limiting the exposure to customers based on assigned credit ratings as well as limiting the maximum exposure to any single customer. Risk is further mitigated as sales revenue receivables are due and settled in the month following the sale. We mitigate our exposure to credit risk by selecting counterparties of high credit quality, monitoring exposure levels, and limiting credit exposures to approved levels as set in our Corporate Credit Policy. To date, we have not experienced a loss on uncollected receivables from any customers or counterparties.

Operational risk

Currently, our investment in Syncrude represents our only asset. Therefore, the results of the Trust depend exclusively on the operations of Syncrude. The project is a complex, inter-dependent facility and the shutdown of one part of the facility could significantly impact the production of SSB crude oil. Causes of production interruptions may include, but are not limited to: design errors, equipment failures, operator errors, or catastrophic events such as fire, earthquake, storms, or explosions.

As a participant in Syncrude, we benefit from operational risk management programs implemented by the joint venture. Syncrude applies world-class engineering and design standards and utilizes best practice maintenance and inspection procedures to mitigate operational risk. From an operations perspective, sustained, safe and reliable operations are the key to achieving targets for production and operating costs.

Extreme cold weather can affect both ongoing operations and capital projects by reducing worker productivity and potentially increasing natural gas consumption. Major incidents or unscheduled maintenance outages curtail production and result in significant increases to per barrel operating costs, as was evident in 2005 with the extended coker turnaround, heavy gas oil hydrotreater maintenance, sulphur pump problems, and the vacuum distillation unit throughput issues. Syncrude has a history of 27 years of continuous production and has an excellent industrial safety record.

In addition, we are exposed to the risks associated with major construction projects such as the Stage 3 expansion. These risks include the possibility the project will not be completed on time and/or will not reach design capacity. Also, complications could arise when new systems are integrated with existing systems and facilities. The risk of such complications is somewhat mitigated by Syncrude's procedures of performing a sequenced start-up of new units, and no significant issues have been realized in the units brought into operation to date.

We manage our exposure to these operational risks by maintaining appropriate levels of insurance, primarily business interruption ("BI") and property insurance. We have purchased US$1.0 billion of BI and property insurance to protect up to 12 months of cash flow in case Syncrude experiences

an event causing a loss or interruption of production, such as a fire or explosion at the operating facilities. The BI insurance is subject to a 60 day self-retention period. Course-of-construction and start-up delay insurance coverage of approximately $210 million and $160 million, respectively, also have been purchased as part of the Stage 3 expansion.

We also face risks associated with other oil sands producers such as competition for skilled labour, limited resources in the Fort McMurray area where Syncrude and the other producers operate, or higher costs for products and services to operate Syncrude's facilities as a result of increased demand. In addition to paying its employees and contract staff competitive industry compensation, Syncrude Canada has a reputation as an innovative and socially responsible company committed to the environment and dedicated to its employees, the Aboriginal Peoples, and the communities of northern Alberta. We believe these qualities assist in retaining skilled labour. Syncrude is also considering an employee retention program which, if successful, will result in cash payments, but may provide savings associated with an experienced workforce. To deal with the increased demands on the infrastructure, such as housing, Syncrude cooperates, where they are able to, with other industry participants to share resources, such as camps.

Worldwide demand for commodities has increased activity in the mining sector, introducing a risk of constrained supplies for key operating components. The strong mining sector is currently resulting in a shortage of off-road tires. While the tire shortage has been identified as a production and cost risk for 2006 and 2007, Syncrude has implemented various measures aimed at reducing tire damage and increasing tire life in order to more efficiently manage their supply. While we do not currently expect the shortage to impact our current 2006 production outlook, the ability to achieve higher levels of production may be limited by tire supply constraints.

Syncrude joint venture ownership

The Syncrude Project is a joint venture that is currently owned by eight participants, two of whom are subsidiaries of Canadian Oil Sands. Each Syncrude participant's working interest is equal to its pro rata interest in the Syncrude Project. Major capital decisions for new projects require unanimity of the owners, while other matters require only the approval of a majority and three owners. Historically, the Trust's subsidiaries and the other joint venture owners have sought consensus of all the owners on all matters. There can be no assurance that unanimous agreement will be reached on major capital programs and that the staged expansion will be executed as currently planned.

Pipeline transportation and delivery infrastructure

All of our Syncrude production is transported to Edmonton, Alberta through the Athabasca Oil Sands Pipeline Limited ("AOSPL") system. Disruptions in service on this system could adversely affect our crude oil sales and cash flows. The AOSPL system feeds into various other crude oil pipelines that are used to deliver our SSB product to refinery customers throughout Canada and the United States. Interruptions in the availability of these pipeline systems may limit the ability to deliver production volumes and could adversely impact sales volumes or the prices received for our product. These interruptions may be caused by the inability of the pipeline to operate, or they can be related to capacity constraints if the supply of feedstock into the system exceeds the infrastructure capacity. While we believe long-term take-away capacity will exceed production growth for synthetic supply out of the Athabasca region, there can be no certainty that investments will be made to provide this capacity. There is also no certainty that short-term operational constraints will not arise as capacity is believed to be adequate, but tight. In addition, planned or unplanned shutdowns of our refinery customers may limit our ability to deliver our SSB crude oil, with a negative implication on sales and cash flow.

We manage exposure to these risks by allocating deliveries to multiple customers via multiple pipelines, but pipeline choices are limited. We also maintain knowledge of the infrastructure operational issues and expansion proposals through industry organizations in order to assess and respond to delivery risks.

Environmental risk

We are exposed to the risk of the Syncrude operations' impact on the environment. Mitigating this risk, Syncrude remains committed to its objectives for operational, environmental and social excellence. Stage 3 incorporates technologies to reduce emissions, improve energy efficiency and upgrade the entire production stream to meet higher specifications for environmental and product quality. We anticipate that downstream refineries will find our SSP product more valuable than the existing SSB as they will use less energy in processing our high quality SSP crude into products such as gasoline and diesel that meet new higher environmental standards.

The third fluid coker being constructed as part of Stage 3 includes a flue gas desulphurizer that will capture SO_2 for use in ammonium sulphate fertilizer production. As described in Note 17(d) to the consolidated financial statements, Syncrude has an agreement in place with a third party to provide the sulphur from the desulphurization unit for at least the next 15 years.

Syncrude also has initiated the Syncrude emissions reduction program, which is expected to significantly reduce total sulphur dioxide emissions as well as other emissions, such as particulate matter and metals. It will involve retrofitting sulphur reduction technology into the operation of Syncrude's two existing cokers. Procurement and construction expenditures are scheduled to occur post 2005 following completion of the Stage 3 expansion and extend into 2009 to tie-in with equipment turnaround schedules. These measures are expected to reduce sulphur dioxide emissions by up to 60 per cent from today's approved Alberta Environmental regulatory levels of 250 tonnes per day. The resulting sulphur dioxide emissions are also expected to fall below new maximum emission levels that will take effect following the completion of the Syncrude emissions reduction program.

While total CO_2 emissions will increase as production rises, Syncrude's investments in energy consumption and environmental mitigation are anticipated to reduce CO_2 emissions per barrel by about 23 per cent from 1998 to 2010.

Syncrude produces and stores significant amounts of sulphur in a block at its plant site as there is presently a limited market for the sulphur. There can be no assurance that future environmental regulations pertaining to the use, storage, handling and/or sale of sulphur will not adversely impact the unit costs of production of synthetic oil. Syncrude is exploring the ability to store sulphur blocks underground. Initial information indicates that this may be a viable and environmentally friendly solution for dealing with the excess sulphur. Syncrude continues to research alternatives for addressing this issue, which also affects other sulphur producers in the petroleum industry.

In 2005 the Trust entered an agreement with a major sulphur marketer to sell our share of Syncrude's sulphur production at a plant gate market price. The agreement covers an initial five year term, is renewable at the Trust's option, and provides that volumes will not be sold unless the price exceeds an established plant gate minimum. Sales under this contract are expected to begin near the end of 2007 following the buyer's construction of infrastructure to handle the Trust's sulphur volumes.

Syncrude owners are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Project. Our share of Syncrude's ongoing environmental obligations has been and is expected to continue to be funded within our funds from operations. The owners also have each directly posted letters of credit with the Province of Alberta to secure the ultimate mining reclamation obligations, of which Canadian Oil Sands' share was approximately $42 million at December 31, 2005. In addition to the letters of credit posted with the Alberta government, Canadian Oil Sands maintains a reclamation trust fund to help meet this future reclamation liability.

In each of 2005 and 2004, we contributed approximately $4 million, including earned interest, to our reclamation trust account, resulting in a December 31, 2005 ending balance of approximately $25 million. The 13.75 per cent Syncrude interests we acquired in 2003 historically did not have a mining reclamation trust account. Since acquisition of these interests, we have deposited an amount related to current production into the existing reclamation trust account on a basis similar to that being deposited for the 21.74 per cent interest held previously. The funding requirement of the reclamation trust is more fully described in Note 8 to the consolidated financial statements.

A number of environmental regulations focus on limiting the emissions of gases and other substances from the Syncrude operations. The Canadian federal government ratified the Kyoto Protocol in 2002 and has indicated that total annual emissions for greenhouse gases for large industrial emitters have been capped at 55 megatonnes, with emissions to be reduced by 15 per cent from current business as usual levels. The government has limited the cost of future carbon credit purchases to a maximum of $15 per tonne. Based on these parameters, in 2003 we estimated a direct cost impact of about $0.30 per barrel from 2008 to 2012 on Syncrude's operating costs for implementing the Kyoto Protocol, without further emission improvements. While further announcements regarding the Protocol were made in the February 23, 2005 Canadian federal government budget release, no additional guidance on the cost or implementation related to the Protocol was provided.

With Russia's adoption of the Kyoto Protocol in 2004, the Protocol came into effect in Canada on February 16, 2005. However, the federal government still has not published specific guidelines or further guidance on its application to industry. Accordingly, numerous uncertainties regarding details of the Protocol's implementation make it difficult to estimate the full potential cost impact, such as third party supply chain costs related to the Protocol. While we believe that our cost estimate is a reasonable one, we have no assurance that the actual impact might not be substantially different from the estimate. However, we believe that production will continue to be profitable under the current known factors. Operationally, Syncrude also has moved towards lowering its emissions of CO_2. Over time, the amount of CO_2 emissions have been reduced on a per barrel basis as Syncrude has adopted new technologies and refining methods. The costs of meeting these environmental thresholds, however, increases operating costs and/or capital costs, and as such, may impact the profitability of the operations.

Regulations

The Syncrude Project's operations are subject to extensive Canadian federal, provincial and local laws and regulations governing exploration, development, transportation, production, exports, occupational health, protection and reclamation of the environment, safety and other matters. Currently, we believe that Syncrude is in substantial compliance with all applicable laws and regulations. During the Stage 3 construction, Syncrude has achieved very high safety results in both the construction and operational aspects at the plant. Additionally, Syncrude has historically obtained renewals of its licenses and permits. While there can be no assurance that government approvals required for certain licenses and permits will be provided, we do not believe that there are any significant issues pending with the governmental authorities which would cause Syncrude to lose its rights. In particular, the approval granted by the Alberta Energy and Utilities Board for the Syncrude Project facility does not expire until December 31, 2035 and should be further extended upon application to the relevant regulatory authorities at that time.

Foreign ownership

In the third quarter of 2004, the federal government tabled draft legislation which restricted the level of foreign ownership of mutual fund trusts on a continuous monitoring basis to 50 per cent. We strongly opposed this legislation and viewed any restriction on accessing the international capital markets as harmful to the Canadian economy and unnecessary in light of the proposed implementation of a 15 per cent withholding tax on all distributions made to non-resident

Canadian Unitholders. Canadian Oil Sands is a member of The Canadian Association of Income Funds ("CAIF"). CAIF commissioned an independent study by HLB Decision Economics which has shown that, with the proposed 15 per cent withholding tax on distributions to non-residents, the revenue to the federal government is not decreased but in fact may be increased by having a higher level of foreign ownership in trusts. In turn, the resource industry has traditionally relied on foreign capital to complete the large capital programs necessary to harness the vast resources of our country. Following consultation between the federal government and industry, including discussions with representatives of Canadian Oil Sands and a number of other mutual fund trusts, investment bankers and members of the business community, the federal government implemented the 15 per cent withholding tax but left the current legislation regarding foreign ownership unchanged. In our view, the 15 per cent withholding tax on distributions made to non-residents places the federal government in a revenue neutral position. We plan to continue consultations with the federal government with a view to having open access to global capital markets and thereby allowing higher levels of foreign ownership in trusts.

Based on information from the statutory declarations by Unitholders, we estimate that, as of October 3, 2005, approximately 37 per cent of our Unitholders are non-Canadian residents with the remaining 63 per cent being Canadian residents. The statutory declarations are only as of a specific record date, and therefore may still not reflect the current ownership level of the Trust's Units; however, given the limitations in the securities registration system and the lack of any process for real-time residency information to flow to the trustee and transfer agent, the Trust is of the view that statutory declarations are currently the most appropriate method of determining the residency status of its Unitholders. The Trust previously used geographical searches to determine the level of our non-Canadian ownership; however, statutory declarations are considered to be a more accurate measure of non-Canadian residency status since each Unitholder's position is sworn in an affidavit rather than relying upon geographical address data.

Canadian Oil Sands' Trust Indenture provides that not more than 49 per cent of its Units can be held by non-Canadian residents. The Trust intends to require its Unitholders to complete statutory declarations as to their residency status each quarter to enable the Trust to monitor its level of non-Canadian resident ownership. The Trust Indenture requires all Unitholders to provide such statutory declarations when requested to do so by the trustee and transfer agent. The Trust plans to post the results of the declarations on its web site at www.cos-trust.com under investor information, frequently asked questions. This section of the web site also describes the Trust's steps for managing its non-Canadian resident ownership levels.

Marketing

Each of the Syncrude joint venture owners is responsible for marketing its share of SSB production. Historically, Canadian Oil Sands has utilized third party service providers to negotiate contract pricing terms, schedule production deliveries, and control revenue collections. The Trust announced on September 22, 2005 it would begin marketing its Syncrude crude oil production when the existing Marketing Services Agreement with EnCana Corporation expires on June 30, 2006. In addition to the current risks associated with our product marketing, internalization of the marketing functions will require new activities to effectively control the process, and there is a risk that deliveries are disrupted during handover from the service provider. The Trust is managing this risk by hiring experienced marketing employees and working closely with the current service provider to establish a strong transition plan. We believe any potential disruptions to sales and cash flows would be minimal and temporary.

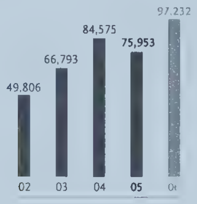
2006 OUTLOOK

In 2006 we are anticipating Syncrude production to range between 95 to 110 million barrels, or 34 to 39 million barrels net to the Trust based on our 35.49 per cent interest with a single point estimate of 100 million barrels, or 35.5 million barrels net to the Trust. This single point estimate includes the first quarter turnaround of Coker 8-1 with Stage 3 volumes ramping up to significant levels in the second half of the year. The low end of our 2006 production range reflects the possibility of a turnaround of Coker 8-2, which is not scheduled to occur until the second quarter of 2007. Additionally, a strong mining sector is currently resulting in a worldwide shortage of off-road tires. While the tire shortage has been identified as a production and cost risk for 2006 and 2007, Syncrude has implemented various measures aimed at reducing tire wear and damage in order to more efficiently manage its tire supply. Therefore, we do not expect the shortage to impact our current 2006 production outlook. The high end of our production range reflects a faster ramp up of Stage 3 volumes and sustained, reliable operations following start-up of all Stage 3 units.

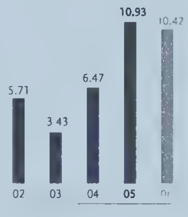
Stage 3 is expected to increase Syncrude's productive capacity to 350,000 barrels per day, which reflects an average production rate that incorporates outages for turnarounds and maintenance. We anticipate a period of optimizing and refining the various Stage 3 units and processes during which production may fluctuate. Nonetheless, with no major turnarounds scheduled for the last half of the year, we should be able to achieve full rates and even exceed them at times. On a steady state basis, we think we should be able to achieve 90 percent of productive capacity within the first year of operations; accordingly, we are anticipating a 2006 exit production rate of 315,000 barrels per day for Syncrude.

In addition to increased production, Stage 3 is also expected to improve product quality from SSB to SSP in 2006. We believe that SSP's higher quality will differentiate it from the growing volumes of synthetic crude in the market produced by competing projects. SSP's quality characteristics are also expected to provide a higher market price relative to SSB and improve pricing differentials to WTI. In 2005 our SSB product traded at an average premium of $1.05 per barrel compared to

Canadian dollar WTI. We believe that this premium primarily reflected the lower supply of light synthetic crude oil from a number of producers. These premiums have reversed to discounts in the last month of 2005 and into 2006 as synthetic oil supplies have increased. While the supply/demand equation for synthetic oil is difficult to predict and quantify, we believe that the differential to WTI will initially deteriorate as synthetic supply increases and the market adjusts to the new SSP product quality. Accordingly, the Trust is currently incorporating a $1.50 per barrel discount relative to Canadian dollar WTI in its 2006 outlook.



CANADIAN OIL SANDS AVERAGE DAILY PRODUCTION
(BBLS PER DAY)



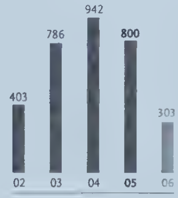
FUNDS FROM OPERATIONS
($ PER TRUST UNIT)

Funds from operations in 2006 are anticipated to total $970 million, or $10.42 per Unit, based on an average WTI crude oil price of US$55 per barrel and a foreign exchange rate of $0.85 U.S./Cdn for the year. Revenues are estimated at approximately $2.3 billion in 2006, with operating costs of $919 million, or $25.88 per barrel, including $9.15 per barrel of purchased energy, reflecting an estimated $10.78/GJ natural gas price and slightly higher per unit consumption. In addition, funds from operations reflect the increase to the full 25 per cent Crown royalty rate in 2006.

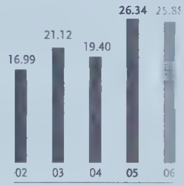
Per unit purchased energy consumption is expected to average approximately 0.85 GJs per barrel in 2006 as a result of fluctuating production levels while the Stage 3 expansion is brought into operation. Beyond 2006 per barrel energy consumption is expected to be approximately 0.85 GJs per barrel, which is higher than historical consumption of about 0.7 GJs per barrel as additional hydrogen will be required to increase product quality from SSB to SSP and bitumen will be increasingly sourced from the Aurora mine. Due to Aurora's remote location, process heat from the upgrader is unavailable and the mine relies mainly on purchased natural gas for its energy needs.

The Trust's 2006 crude oil production is unhedged, and under the current financing plan, we do not intend to undertake any crude oil hedging transactions. The Trust may hedge its crude oil production in the future depending on the business environment and our growth opportunities.

Based on our 2006 guidance, Canadian Oil Sands anticipates paying Crown royalties at the full 25 per cent royalty rate in early 2006, and as a result, Crown royalties are estimated at $183 million or $5.15 per barrel in 2006. Under Alberta's Generic Oil Sand Royalty, the Crown royalty is calculated as the greater of one per cent of plant gate revenue before hedging or 25 per cent of plant gate revenue before hedging, less Syncrude operating, non-production and capital costs. The Generic Oil Sand Royalty regime supports the development of Alberta's oil sands and we acknowledge the role this regime has played in enabling us to proceed with the expansion of Syncrude's facilities. The Province of Alberta and investors in the Trust are now positioned to benefit from the expected growth in Syncrude's production.

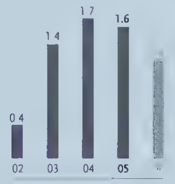


CAPITAL EXPENDITURES
($ MILLIONS)



OPERATING COSTS
($ PER BBL)

Our estimate for 2006 capital expenditures increased modestly from our estimates provided on October 25, 2005 as a result of a one per cent increase in our P50 cost estimate to complete the Stage 3 project, which is projected as at February 22, 2006 at $8.4 billion, gross to Syncrude. Capital expenditures are expected to total $303 million in 2006 with approximately $106 million directed to the Stage 3 expansion. The P50 cost estimate refers to our best estimate and the probability that the project has a 50 per cent chance of coming in under budget and a 50 per cent chance of coming in over budget.



NET DEBT AT DECEMBER 31
($ BILLIONS)

Under the Trust's 2006 outlook, we anticipate reaching our net debt target of approximately $1.2 billion by the end of 2006. The current robust price environment strengthens the Trust's financial position, and we continue to generate sufficient funds from operations to fund capital expenditures, distributions, and make debt repayments. Once we have achieved our net debt target, and unless capital investment growth opportunities exist that we believe would offer Unitholders better value, we intend to approach full payout of our free cash flow, which is defined as funds from operations less capital expenditures and reclamation trust contributions.

The Trust's DRIP helps to accelerate debt reduction and the Trust currently intends to maintain the DRIP in its present form until at least the target net debt level is achieved. The DRIP has been an important component in the Trust's financing plan for the Stage 3 expansion and may play a role in the Trust's future financing plans. In addition, the DRIP provides important benefits to Unitholders and is non-dilutive as all existing Unitholders are eligible to participate.

Canadian Oil Sands currently intends to put forward a resolution to its Unitholders at the next annual general and special meeting, scheduled for April 25, 2006, to split its Units on a five-to-one basis, subject to receipt of all required regulatory approvals. We believe a Unit split will enhance liquidity, increase investor interest in the Trust, and bring the trading price into a more accessible range for retail investors.

SENSITIVITIES

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' outlook. The following table provides a sensitivity analysis of the key factors affecting the Trust's performance. In addition to the factors described in the table, the supply/demand equation for synthetic crude oil in the North American markets could impact the price differential for SSB relative to crude benchmarks; however, this factor is difficult to predict.

2006 outlook sensitivity analysis

Variable [1]	Annual Sensitivity	Funds from Operations Increase $ millions	Funds from Operations Increase $ per Unit
Syncrude operating costs decrease	C$1.00 per bbl	27	0.29
Syncrude operating costs decrease	C$50 million	14	0.15
WTI crude oil price increase	US$1.00 per bbl	32	0.34
Syncrude production increase	2 million bbls	32	0.34
Canadian dollar weakening	US$0.01 per C$	19	0.20
AECO natural gas price decrease	C$0.50 per GJ	11	0.12

[1] An opposite change in each of these variables will result in the opposite funds from operations impact

CONTROLS ENVIRONMENT

Management is responsible for the preparation and fair presentation of the consolidated financial statements. We have established disclosure controls and procedures, internal controls over financial reporting, and corporate wide policies to provide that Canadian Oil Sands' consolidated financial position, results of operations and cash flows are presented fairly. Our disclosure controls and procedures are designed to ensure timely disclosure and communication of all material information required by regulators.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

Canadian Oil Sands, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures pursuant to Multinational Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" as of the end of the period covered by this report. The evaluation also included a review of Syncrude's evaluation of their disclosure controls and procedures. Based on the evaluations, it was concluded that Canadian Oil Sands' disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that information required is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures are designed to provide reasonable but not absolute assurance that information required to be disclosed under applicable Canadian securities regulation is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

MANAGEMENT'S REPORT

Management is responsible for the information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Where alternative accounting methods exist, management has chosen those it deems to be the most appropriate based on Canadian Oil Sands' operations. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material respects.

To assist management in fulfilling its responsibilities, systems of accounting, internal controls, and disclosure controls are maintained to provide reasonable, but not absolute, assurance that financial information is reliable and accurate and that assets are adequately safeguarded. In addition, Canadian Oil Sands has in place a code of business conduct that applies to all of its employees and directors.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed annually by the Unitholders to serve as Canadian Oil Sands' external auditors, have audited the consolidated financial statements and conducted a review of accounting and internal controls to the extent required under Canadian generally accepted auditing standards. They have performed such tests as they deemed necessary to enable them to express an opinion on these financial statements. Canadian Oil Sands also engages independent reserve evaluators to conduct independent evaluations of its crude oil reserves. The external auditors and reserve evaluators have unrestricted access to the Management of Canadian Oil Sands, the Audit Committee and the Board of Directors.

The Board of Directors has appointed a four-person Audit Committee, consisting of directors who are neither employees nor officers of Canadian Oil Sands and all of whom are independent. It meets regularly with management and external auditors to discuss controls over the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of Canadian Oil Sands' external auditors and the independent reserve evaluators. The Audit Committee meets at least quarterly with management and the external auditors to review and approve interim financial statements prior to their release and recommends the audited financial statements to the Board of Directors for their approval. Annually, the Board reviews and approves Canadian Oil Sands' annual financial statements, Management's Discussion and Analysis, Annual Information Form, Management Information Circular, and annual reserves estimates. The Board of Directors has approved the consolidated financial statements and the Management's Discussion and Analysis based on the recommendations of the Audit Committee.

Marcel R. Coutu
President & Chief Executive Officer
February 22, 2006

Allen R. Hagerman, FCA
Chief Financial Officer
February 22, 2006

RESPONSIBILITY

AUDITORS' REPORT

To the Unitholders of Canadian Oil Sands Trust

We have audited the consolidated balance sheets of Canadian Oil Sands Trust as at December 31, 2005 and 2004 and the consolidated statements of income and Unitholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Canadian Oil Sands' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

January 25, 2006

CONSOLIDATED STATEMENTS OF INCOME AND UNITHOLDERS' EQUITY

For the years ended December 31 ($ millions, except per Unit amounts)	2005	2004
Syncrude Sweet Blend revenues	$ 2,006.7	$ 1,396.9
Transportation and marketing expense	(39.8)	(44.9)
	1,966.9	1,352.0
EXPENSES		
Operating	730.7	600.5
Non-production	85.0	47.9
Crown royalties (Note 16)	19.6	18.0
Administration	12.4	8.8
Insurance	7.8	9.4
Interest, net (Note 13)	103.8	95.3
Depreciation, depletion and accretion	197.7	171.9
Foreign exchange gain	(29.1)	(79.7)
Income and Large Corporations Tax (Note 10)	7.6	(2.0)
Future income tax expense (recovery) (Note 10)	0.4	(27.3)
	1,135.9	842.8
NET INCOME	$ 831.0	$ 509.2
UNITHOLDERS' EQUITY, BEGINNING OF YEAR		
As previously reported	$ 2,635.9	$ 2,094.4
Change in accounting policies	–	8.5
As restated	2,635.9	2,102.9
Net income	831.0	509.2
Issue of Units (Note 11)	98.6	203.3
Unitholder distributions (Note 14)	(183.9)	(180.4)
Contributed surplus (Note 12(a))	1.0	0.9
UNITHOLDERS' EQUITY, END OF YEAR	$ 3,382.6	$ 2,635.9
WEIGHTED-AVERAGE UNITS	91.9	89.0
UNITS, END OF YEAR	92.5	91.4
NET INCOME PER UNIT		
Basic (Note 11(c))	$ 9.04	$ 5.72
Diluted (Note 11(c))	$ 9.01	$ 5.72

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ millions)	2005	2004
ASSETS		
Current assets		
Cash and short-term investments	$ 88.0	$ 17.8
Accounts receivable	196.8	145.7
Inventories (Note 3)	87.1	57.1
Prepaid expenses	2.4	2.9
	374.3	223.5
Property, plant and equipment, net (Note 4)	5,502.5	4,794.8
Other assets		
Reclamation trust (Note 8)	25.1	21.0
Deferred financing charges, net	22.6	28.4
	47.7	49.4
	$ 5,924.5	$ 5,067.7
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 281.2	$ 273.6
Unit distribution payable (Note 14)	–	45.7
Current portion of employee future benefits (Note 5)	10.3	7.2
	291.5	326.5
Employee future benefits and other liabilities (Note 5)	92.6	91.9
Long-term debt (Note 7)	1,737.3	1,699.8
Asset retirement obligation (Note 8)	147.7	44.1
Deferred currency hedging gains (Note 9)	33.9	27.6
Future income taxes (Note 10)	238.9	241.9
	2,541.9	2,431.8
Unitholders' equity (Note 11)	3,382.6	2,635.9
	$ 5,924.5	$ 5,067.7

Commitments and Contingencies (Note 17)

See Notes to Consolidated Financial Statements.

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 ($ millions)	2005	2004
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	$ 831.0	$ 509.2
Items not requiring outlay of cash		
Depreciation, depletion and accretion	197.7	171.9
Amortization	3.0	3.1
Foreign exchange on long-term debt	(35.6)	(89.2)
Future income tax expense (recovery)	0.4	(27.3)
Other	2.3	2.6
Net change in deferred items	6.0	5.5
Funds from operations	1,004.8	575.8
Change in non-cash working capital (Note 19(a))	(55.8)	17.9
	949.0	593.7
FINANCING ACTIVITIES		
Issuance of medium term and senior notes (Note 7)	–	723.5
Net drawdown (repayment) of bank credit facilities (Note 7)	73.1	(371.9)
Unitholder distributions (Note 14)	(183.9)	(180.4)
Issuance of Units (Note 11)	98.6	203.3
Net change in deferred items	–	(4.2)
Change in non-cash working capital (Note 19(a))	(45.7)	2.1
	(57.9)	372.4
INVESTING ACTIVITIES		
Capital expenditures	(799.6)	(942.1)
Reclamation trust	(4.1)	(4.5)
Change in non-cash working capital (Note 19(a))	(17.2)	(18.4)
	(820.9)	(965.0)
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	70.2	1.1
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	17.8	16.7
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 88.0	$ 17.8
SUPPLEMENTAL INFORMATION		
Large Corporations and Income Tax paid	$ 9.5	$ 14.2
Interest charges paid	$ 103.3	$ 86.4

See Notes to Consolidated Financial Statements.

(Tabular amounts expressed in millions of dollars, except where otherwise noted)

1) Structure of Canadian Oil Sands Trust

Canadian Oil Sands Trust (the "Trust") is an open-ended investment trust formed under the laws of the Province of Alberta in October 1995 pursuant to a trust indenture ("Trust Indenture") which has since been amended and restated. Computershare Trust Company of Canada is appointed as Trustee under the Trust Indenture. The beneficiaries of the Trust are the holders ("Unitholders") of the units ("Units") in the Trust.

The Trust indirectly owns a 35.49 per cent interest ("Working Interest") in the Syncrude Joint Venture ("Syncrude") which is involved in the mining and upgrading of bitumen from oil sands in Northern Alberta and operated by Syncrude Canada Ltd. ("Syncrude Canada").

2) Summary of accounting policies

Consolidation
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP") and include the accounts of the Trust and its subsidiaries (collectively, "Canadian Oil Sands"). The activities of the Syncrude Joint Venture are conducted jointly with others and, accordingly, these financial statements reflect only the proportionate interest in such activities, which include the production, operating costs, non-production costs, property, plant and equipment capital expenditures, inventories, employee future benefits and other liabilities, asset retirement obligation, and associated amounts payable. Substantially all other activities and balances in these financial statements, including sales, are applicable directly to the activities of Canadian Oil Sands.

Cash and short-term investments
Investments with maturities of less than three months at purchase are considered to be cash equivalents and are recorded at cost, which approximates market value.

Property, Plant and Equipment
Property, plant and equipment assets are recorded at cost and include the costs of acquiring the Working Interest and subsequent additions to property, plant and equipment ("PP&E"). Also included in PP&E is the estimated fair value of Canadian Oil Sands' asset retirement obligation (see asset retirement obligation accounting policy note). Overburden removal, repairs and maintenance, and turnaround costs are expensed in the period incurred. Proceeds from the sale of PP&E are deducted from the capital base without recognition of a gain or loss.

PP&E are depreciated and depleted on the unit-of-production method based on estimated proved and probable reserves. For purposes of the depreciation and depletion provision, capital costs include future capital costs expected to be necessary in the mining, extraction and upgrading process to recover the estimated proved and probable reserves.

An asset impairment test is applied to Canadian Oil Sands' PP&E to ensure that the capitalized costs do not exceed management's estimate of future undiscounted revenues from proved reserves, less operating expenses, asset retirement costs, Crown royalties, and general and administrative expenses. The Trust performs this test at least annually, or whenever there is an indication that asset impairment has occurred.

Inventories
Product inventories are valued at the lower of the average cost of production for the period and their net realizable value. Materials and supplies inventories are valued at the lower of average cost and replacement cost.

Asset retirement obligation
The estimated fair value of the Trust's 35.49 per cent share of Syncrude's retirement obligations pertaining to PP&E is recognized on the Trust's Consolidated Balance Sheet. Syncrude's reclamation obligations relate to the site restoration of each mine site, of which the discounted full amount of the liability is recorded upon initial land disturbance. The fair value is determined by estimating the timing and amounts of the future reclamation expenditures, and discounting the expenditures using a credit adjusted risk free rate applicable to the Trust. An obligation is recognized when a reasonable estimate of the amount and timing of the reclamation expenditures can be determined. The asset retirement cost is equal to the estimated fair value of the asset retirement obligation, and is capitalized as part of the Trust's PP&E. These capital assets are depreciated using the unit-of-production method. The obligation is accreted based on the Trust's applied discount rate. The depreciation expense and accretion expense are reflected in the Trust's depreciation, depletion and accretion ("DD&A") expense in consolidated net income.

Actual costs are charged against the accumulated obligation when incurred.

Derivative financial instruments
Canadian Oil Sands may enter into derivative financial instrument contracts such as foreign currency exchange rate, crude oil and natural gas price contracts to hedge fluctuations in exchange rates, and the prices of crude oil and natural gas. Canadian Oil Sands may also enter into interest rate swap agreements to manage its interest rate risk.

Pursuant to Canadian Oil Sands' risk management policies, relationships between hedging instruments and hedged items and the strategy for undertaking the hedge transaction are documented. Canadian Oil Sands records the derivative contract as a hedge for

accounting purposes when, at the time of initiating the contract, it is identified as a hedge of a specific transaction and, at both the inception of the contract and on an ongoing basis, Canadian Oil Sands assesses the derivative instrument as effective in offsetting cash flows of the hedged item. Canadian Oil Sands uses a statistical methodology called correlation analysis to test effectiveness of its crude oil and foreign exchange financial instruments on a quarterly basis. For its interest rate swaps which qualify as hedges, an effectiveness test is not required each quarter as long as the critical terms of the swap contract continue to match the underlying debt instrument. Canadian Oil Sands reviews the critical terms of the swap contract against the terms of the debt each quarter.

If a derivative contract cannot be designated as a hedge under Canadian GAAP or the hedge is no longer effective, then mark-to-market accounting is used, whereby the fair value of the contract is recorded on the balance sheet as an asset or liability. Subsequent changes in the fair value of the asset or liability are recognized in other income, which is included in net interest expense on the income statement, when those changes occur.

Gains and losses on hedge contracts which qualify for hedge accounting, are recognized in net income and cash flows when the related revenues, costs, interest expense and cash flows are recognized. Crude oil and foreign currency hedging gains and losses are included in Syncrude Sweet Blend ("SSB") revenues as incurred. As natural gas is used in the production of SSB, any natural gas hedging gains and losses are included in operating expenses. For interest rate swaps that qualify for hedge accounting, any gains or losses on the swaps are included in net interest expense as incurred.

Revenues

Revenues from the sale of SSB are recorded when title passes from Canadian Oil Sands to its customer. Revenues are recorded inclusive of hedging gains and losses from foreign currency exchange rate and crude oil price contracts.

Employee future benefits

Canadian Oil Sands accrues its obligations as a joint venture owner in respect of Syncrude Canada's employee benefit plans and the related costs, net of plan assets. The cost of employee pension and other retirement benefits is actuarially determined using the projected benefit method based on length of service and reflects Canadian Oil Sands' best estimate of the expected performance of the plan investment, salary escalation factors, retirement ages of employees and future health care costs. The expected return on plan assets is based on the fair value of those assets. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service life of active employees ("EARSL") at the date of amendment. The excess of any net actuarial gain or loss exceeding 10 per cent of the greater of the benefit obligation and fair value of the plan assets is amortized over the EARSL (Note 5(a)).

Future income taxes

Canadian Oil Sands follows the liability method of accounting for income taxes. Under this method, future income taxes of operating corporations are calculated as the difference between the accounting and income tax basis of an asset or liability, referred to as temporary differences, tax effected using substantively enacted income tax rates. Future income tax balances recorded on the Consolidated Balance Sheet are adjusted to reflect changes in temporary differences and income tax rates with the adjustments being recognized in net income in the period that the changes occur.

Stock-based compensation

Canadian Oil Sands recognizes stock-based compensation expense in its Consolidated Statement of Income and Unitholders' Equity for all trust unit options ("options") granted during the year, with a corresponding increase to contributed surplus in Unitholders' Equity. Canadian Oil Sands determines compensation expense based on the estimated fair values of the options at the time of grant, the cost of which is recognized in net income over the vesting periods of the options.

As an owner in the Syncrude Joint Venture, Canadian Oil Sands also records its share of costs for Syncrude's stock-based compensation program. Syncrude's plan has incentive phantom share units ("phantom units") which require settlement by cash payments. During the vesting period, compensation expense is recognized using the graded vesting approach when the value of the phantom units exceeds the award value. Canadian Oil Sands' share of the change in value of the phantom units is recognized in operating expense in the year the change occurs.

Foreign currency translation

Canadian Oil Sands receives a portion of its revenues, incurs various expenses, and has U.S. dollar denominated debt, which result in monetary assets and liabilities denominated in U.S. dollars. These U.S. denominated balances are translated to Canadian dollars at exchange rates in effect at the end of the period, with the resulting gain or loss being recorded in the income statement. Translation gains and losses on U.S. denominated long-term debt are recorded as unrealized and excluded from funds from operations. All other translation gains and losses, which relate to the translation of U.S. denominated cash, accounts receivable and accounts payable, are classified as realized since they are settled in less than one year.

Net income per Unit

Canadian Oil Sands applies the treasury stock method to determine the dilutive impact, if any, of options assuming they were exercised in a reporting period. The treasury stock method assumes that all proceeds received by the Trust when options are exercised would be used to purchase Units at the average market price during the period.

Measurement uncertainty

The preparation of the consolidated financial statements under Canadian GAAP requires management personnel to make estimates and assumptions for many financial statement items based on their best estimate and judgment. Significant judgments and estimates relate to depreciation, depletion, the impairment test and asset retirement obligation costs as they are based on reserve engineering studies, environmental studies and future price and cost estimates, which by their nature, are subjective and contain measurement uncertainty. The values of pension and other benefit plan accrued obligations and plan assets and the amount of pension cost charged to net income depend on certain actuarial and economic assumptions, which by their nature are subject to measurement uncertainty. The calculation of future income tax is based on assumptions, which are subject to uncertainty as to the timing and at which tax rates temporary differences are expected to reverse. Accordingly, actual results may differ from all of these estimated amounts as future events occur.

3) Inventories

	2005	2004
Materials and supplies	$60.9	$45.1
Product and linefill	26.2	12.0
	$87.1	$57.1

4) Property, plant and equipment, net

December 31, 2005	Cost	Accumulated Depreciation and Depletion	Net Book Value
Property, plant and equipment	$6,315.1	$812.9	$5,502.2
Other capital assets	0.9	0.6	0.3
	$6,316.0	$813.5	$5,502.5
December 31, 2004			
Property, plant and equipment	$5,438.9	$644.5	$4,794.4
Other capital assets	0.8	0.4	0.4
	$5,439.7	$644.9	$4,794.8

Total DD&A expense is comprised of the following amounts for the year ended December 31:

	2005	2004
Depreciation and depletion expense	$168.5	$170.3
Accretion expense	29.2	1.6
	$197.7	$171.9

5) Employee future benefits and other liabilities

	2005	2004
Employee future benefits (a)	$98.5	$93.3
Other	4.6	6.0
	$103.1	$99.3
Less current portion comprised of:		
Other (included in accounts payable and accrued liabilities)	(0.2)	(0.2)
Employee future benefits	(10.3)	(7.2)
	$92.6	$91.9

a) *Employee future benefits*

Syncrude Canada has a defined benefit and two defined contribution plans providing pension benefits, and other retirement and post-employment benefit plans covering most of its employees. Other post-employment benefits include certain health care and life insurance benefits for retirees, their beneficiaries and covered dependents.

Defined benefit plan

Syncrude measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003, and the next required valuation will be as of December 31, 2006.

Canadian Oil Sands' share of Syncrude Canada's defined benefit plan accrued liability, based on its 35.49 per cent ownership at December 31 for each of 2005 and 2004, is comprised of its share of Syncrude Canada's accrued benefit obligation, partially offset by its share of Syncrude Canada's defined benefit plan assets as follows:

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Accrued benefit obligation:						
Balance- Beginning of year	$411.8	$351.2	$38.0	$33.3	$449.8	$384.5
Current service cost	17.4	14.8	1.5	0.9	18.9	15.7
Interest cost	23.9	21.2	2.2	2.0	26.1	23.2
Transferred in	3.5	2.4	-	-	3.5	2.4
Benefits paid	(13.6)	(11.6)	(1.3)	(1.2)	(14.9)	(12.8)
Actuarial loss (gain)	54.9	33.8	(3.8)	3.0	51.1	36.8
Balance- End of year	$497.9	$411.8	$36.6	$38.0	$534.5	$449.8
Fair value of plan assets:						
Actuarial fair value- Beginning of year	$247.3	$213.1	$ –	$ –	$247.3	$213.1
Actual return on plan assets	27.5	22.8	–	–	27.5	22.8
Employer contributions	21.4	20.0	–	–	21.4	20.0
Contributions - transfers	3.5	2.4	–	–	3.5	2.4
Benefits paid	(13.0)	(11.0)	–	–	(13.0)	(11.0)
Actuarial fair value- End of year	286.7	247.3	–	–	286.7	247.3
Funded status- Plan deficit	(211.2)	(164.5)	(36.6)	(38.0)	(247.8)	(202.5)
Unamortized net actuarial loss [1]	144.1	99.8	6.7	8.2	150.8	108.0
Unamortized past service costs [1]	1.1	1.2	(2.6)	–	(1.5)	1.2
Accrued benefit liability	$(66.0)	$(63.5)	$(32.5)	$(29.8)	$(98.5)	$(93.3)

[1] Amortized over the expected average remaining service lives of employees covered by the plan, generally 12 years

The asset allocation for Syncrude Canada's plan assets as of December 31 was as follows:

	Percentage of plan assets	
	2005	**2004**
Equity securities	70%	70%
Debt securities	30	30
	100%	100%

Elements of defined benefit costs recognized in the year

	Pension Benefit Plan		Other Post-Employment Benefits		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Current service cost	$17.4	$14.8	$1.5	$0.9	$18.9	$15.7
Interest cost	23.9	21.2	2.2	2.0	26.1	23.2
Actual return on plan assets	(27.5)	(22.8)	–	–	(27.5)	(22.8)
Actuarial loss (gain)	54.9	33.8	(3.8)	3.0	51.1	36.8
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	$68.7	$47.0	$(0.1)	$5.9	$68.6	$52.9
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	6.0	4.4	–	–	6.0	4.4
Difference between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	(50.4)	(30.1)	1.5	(2.8)	(48.9)	(32.9)
Difference between amortization of past service costs for year and actual plan amendments for year	0.1	0.1	2.6	–	2.7	0.1
	(44.3)	(25.6)	4.1	(2.8)	(40.2)	(28.4)
Defined benefit costs recognized in net income	$24.4	$21.4	$4.0	$3.1	$28.4	$24.5

Total cash payments

Canadian Oil Sands' share of Syncrude's total cash payments for employee future benefits for 2005, consisting of cash contributed by Syncrude Canada to its funded pension plans, cash to fund pension payments in excess of registered plan limits, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $23.3 million (2004 – $23.5 million), based on its 35.49 per cent ownership in 2005 and 2004.

Significant assumptions

The significant assumptions adopted in measuring Syncrude Canada's accrued benefit obligations are as follows:

	Pension Benefit Plan		Other Post-Employment Benefits	
	2005	**2004**	**2005**	**2004**
Accrued benefit obligation as of December 31:				
Discount rate	5.0%	5.75%	5.0%	5.75%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%
Benefit costs for years ended December 31:				
Discount rate	5.0%	6.0%	5.0%	6.0%
Expected long-term rate of return on plan assets	8.5%	8.5%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

For measurement purposes, a 9.5 per cent annual rate of increase in the cost of supplemental health care benefits was assumed for 2005, decreased by 0.5 per cent each year thereafter to a five per cent ultimate rate. In addition, annual rate increases of three per cent in Alberta health care premiums and four per cent in dental rates were used.

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans under other post-employment benefits. A one per cent change in assumed health care cost trend rates would have the following effects on Canadian Oil Sands' results for 2005, based on its 35.49 per cent working interest in Syncrude:

	Increase	Decrease
Total of current service and interest cost	$0.3	$(0.2)
Accrued benefit obligation	$3.2	$(2.9)

Defined contribution plans

Canadian Oil Sands' share of the total expense, based on its 35.49 per cent working interest during 2005 and 2004 for Syncrude Canada's defined contribution pension plans was $1.8 million and $1.7 million, respectively.

6) Bank credit facilities

	Credit facility
Extendible revolving term facility (a)	$ 40.0
Line of credit (b)	35.0
Operating credit facility (c)	800.0
	$875.0

Each of Canadian Oil Sands Limited's credit facilities is unsecured and contains typical covenants relating to the restriction on Canadian Oil Sands' ability to sell all or substantially all of its assets or to change the nature of its business. In addition, Canadian Oil Sands has agreed to maintain its total debt-to-total book capitalization at an amount less than 0.60 to 1.0, or 0.65 to 1.0 in certain circumstances involving acquisitions.

a) The $40 million extendible revolving term facility is 364-day with a one year term out, expiring April 26, 2006. This facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

b) The $35 million line of credit is a one year revolving letter of credit facility. Letters of credit drawn on the facility mature April 30th each year and are automatically renewed, unless cancelled by Canadian Oil Sands or the financial institution providing the facility within 60 days prior to expiry. Letters of credit on this facility bear interest at a credit spread.

   Letters of credit of approximately $42 million have been written against the extendible revolving term facility and line of credit as disclosed in Note 18.

c) The $800 million operating facility is a five year facility, expiring April 27, 2010. Amounts borrowed through this facility bear interest at a floating rate based on bankers' acceptances plus a credit spread, while any unused amounts are subject to standby fees.

   As at December 31, 2005, $92 million (2004 – $19 million) of the operating credit facilities was drawn, and is included in long-term debt on the Consolidated Balance Sheet.

7) Long-term debt

	2005	2004
3.95% medium term notes due January 15, 2007 (a)	$ 175.0	$ 175.0
Floating rate medium term notes due January 15, 2007 (a)	20.0	20.0
7.625% Senior Notes due May 15, 2007 (b)	81.5	84.2
5.75% medium term notes due April 9, 2008 (c)	150.0	150.0
5.55% medium term notes due June 29, 2009 (d)	200.0	200.0
4.8% Senior Notes due August 10, 2009 (e)	291.5	300.9
5.8% Senior Notes due August 15, 2013 (f)	349.8	361.1
7.9% Senior Notes due September 1, 2021 (g)	291.5	300.9
8.2% Senior Notes due April 1, 2027 (h)	86.2	89.0
Credit facilities drawn, excluding letters of credit (Note 6)	91.8	18.7
	$1,737.3	$1,699.8

All of Canadian Oil Sands' medium term notes and Senior Notes are unsecured, rank pari passu with other senior unsecured debt of COSL, and contain certain covenants which place limitations on the sale of assets and the granting of liens or other security interests. The medium term notes are guaranteed by the Trust.

a) *3.95 per cent medium term notes and floating rate medium term notes*
On January 15, 2004 COSL issued $20 million of floating rate unsecured medium term notes as well as $175 million of 3.95 per cent unsecured medium term notes. The fixed interest rate debt was swapped into floating rates pursuant to interest rate swap agreements (Note 15(b)(ii)). Both the floating rate and 3.95 per cent medium term notes mature on January 15, 2007. Interest on the 3.95 per cent notes is payable semi-annually on January 15 and July 15. Interest on the floating rate notes is payable quarterly on January 15, April 15, July 15, and October 15.

b) *7.625 per cent senior notes*
On May 20, 1997 COSL issued US$70 million of 7.625 per cent Senior Notes, maturing May 15, 2007. Interest rate swap agreements (Note 15(b)(i)) were entered into to swap the interest rate to a 5.95 per cent fixed rate U.S. dollar payment. Interest is payable on the notes semi-annually on May 15 and November 15.

c) *5.75 per cent medium term notes*
On April 8, 2003 COSL issued $150 million of 5.75 per cent unsecured medium term notes, maturing April 9, 2008. Interest is payable on the notes semi-annually on April 9 and October 9.

d) *5.55 per cent medium term notes*
On June 29, 2004 COSL issued $200 million of 5.55 per cent unsecured medium term notes, maturing June 29, 2009. Interest is payable on the notes semi-annually on June 29 and December 29.

e) *4.8 per cent senior notes*
On August 9, 2004 COSL issued US$250 million of 4.8 per cent Senior Notes, maturing August 10, 2009. Interest is payable on the notes semi-annually on February 10 and August 10.

f) *5.8 per cent senior notes*
On August 6, 2003 COSL issued US$300 million of 5.8 per cent Senior Notes, maturing August 15, 2013. Interest is payable on the notes semi-annually on February 15 and August 15.

g) *7.9 per cent senior notes*
On August 24, 2001 COSL issued US$250 million of 7.9 per cent Senior Notes, maturing September 1, 2021. Interest is payable on the notes semi-annually on March 1 and September 1. COSL has agreed to maintain its senior debt to book capitalization at an amount less than 0.55 to 1.0.

h) *8.2 per cent senior notes*
On April 4, 1997 COSL issued US$75 million of 8.2 per cent Senior Notes, maturing April 1, 2027, and retired US$1.05 million during 2000. Interest is payable on the notes semi-annually on April 1 and October 1.

i) *Future minimum payments payable under long-term debt are as follows:*

2006	$ –
2007	276.5
2008	150.0
2009	491.5
2010	91.8
Later years	727.5
	$ 1,737.3

8) Asset retirement obligation and reclamation trust

	2005	2004
Asset retirement obligation- Beginning of year	$ 44.1	$ 44.7
Liabilities settled	(2.2)	(2.2)
Accretion expense	29.2	1.6
Asset retirement obligation increases	76.6	–
Asset retirement obligation- End of year	$147.7	$ 44.1

Canadian Oil Sands Limited and each of the other owners of Syncrude are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Joint Venture on abandonment. The Trust estimates reclamation expenditures will be made over approximately the next 60 years, and has applied an average credit-adjusted risk free discount rate of 5.91 per cent in deriving the asset retirement obligation.

Syncrude's upgrader facilities have indeterminate useful lives. Therefore, the fair values of the related asset retirement obligations cannot be reasonably determined. Also, the timing and amount of the reclamation expenditures, if any, related to Syncrude's sulphur blocks are not determinable at the present time. The asset retirement obligations pertaining to the upgrader facilities and the sulphur blocks will be recognized in the year in which the settlement amounts and dates can be reasonably estimated.

The total undiscounted estimated cash flows required to settle the Trust's share of the Syncrude obligation rose to $525 million in 2005 (2004 – $275 million), primarily resulting from revised assumptions regarding the volume of reclamation material required and additional regional drainage requirements. Discounting these incremental cash flows resulted in a $66 million increase in the asset retirement obligation during 2005. In addition, a $24 million increase resulted from accretion expense corrections on the asset retirement obligation for the period January 1, 1996 to December 31, 2004.

The reclamation expenditures will be funded from the Trust's funds from operations and from the Trust's mining reclamation trust. The Trust paid $2.2 million in 2005 (2004 – $2.2 million) for its share of Syncrude's reclamation expenditures. The Trust deposits $0.1322 per barrel of production attributable to its 35.49 per cent working interest to a mining reclamation trust established for the purpose of funding the operating subsidiaries' share of environmental and reclamation obligations. A mining reclamation trust for the 13.75 per cent Working Interest the Trust acquired in 2003 did not exist prior to the Trust's acquisition. As at December 31, 2005, including interest earned on the account, the balance of the mining reclamation trust was $25.1 million (2004 – $21.0 million).

In addition, the Trust has posted letters of credit with the Province of Alberta in the amount of $42 million (2004 – $38 million) to secure its pro rata share of the ultimate reclamation obligations of the Syncrude Joint Venture participants.

9) Deferred currency hedging gains

Canadian Oil Sands is exposed to fluctuations in the U.S.-Canadian currency exchange rate. In 1996, Canadian Oil Sands entered into currency hedging contracts to fix the exchange rate in future years. During 1999, Canadian Oil Sands unwound various positions and exchanged the resulting gain for adjustments to other existing currency contracts. For accounting purposes, the gain will be recognized as revenue over the period 2006 to 2016, which is when the hedging contracts would have expired had they not been unwound (Note 15(a)). During 2005, Canadian Oil Sands received payments totalling $6.3 million (2004 – $5.7 million) related to the unrecognized gain resulting in a cumulative deferral of $33.9 million (2004 – $27.6 million) in currency hedging gains.

10) Income taxes

Payments received by the Trust in the form of royalty payments, interest, dividends, distributions or other income from its subsidiaries are taxable income to the Trust. As the Trust is entitled to deduct its cost of acquiring trust royalties, its administrative costs and taxable distributions to Unitholders from its taxable income, the Trust is not expected to be liable for income taxes either currently or in the foreseeable future.

In preparing the 2002 tax return, Canadian Oil Sands found that there was an error in the 2001 Trust tax return prepared by its former tax service provider. In September 2003, the Trust paid $10 million to Canada Revenue Agency ("CRA"), being $9 million for the 2001 tax liability and the balance relating to accrued interest. In 2004, Canadian Oil Sands recovered the $10 million payment from the former tax service provider. The recovery has been recorded as a reduction to income tax expense and net interest expense in Canadian Oil Sands' net income in 2004.

The Trust's most significant operating subsidiary is Canadian Oil Sands Limited ("COSL"), which is subject to tax in the same manner as any other corporation. However, as royalty and interest payments made by COSL to the Trust and COSL's affiliates are deductible in computing its taxable income, COSL is not expecting to pay significant cash taxes either currently or in the future under existing tax legislation, with the exception of Large Corporations tax, which is to be phased out by 2008.

The tax provision recorded on the consolidated financial statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rate to income before tax as follows:

	2005	2004
Income before taxes	$839.0	$479.9
Statutory rates		
Federal	36.00%	36.00%
Federal abatement	-10.00%	-10.00%
Federal surtax	1.12%	1.12%
Alberta provincial rate	11.50%	11.54%
	38.62%	38.66%
Expected taxes at statutory rate	$324.0	$185.5
Add (Deduct) the tax effect of:		
Net income of the Trust - tax sheltered	(296.7)	(181.3)
Resource allowance	(26.5)	(18.5)
Non-deductible Crown charges	3.8	4.3
Capital tax	7.6	7.3
2001 Reassessment	–	(9.3)
Tax rate changes	1.0	(9.9)
Assessments and adjustments	1.7	(3.6)
Other	(6.9)	(3.8)
Provision for (Recovery of) taxes	$8.0	$(29.3)

Canadian Oil Sands' income taxes are calculated according to government tax laws and regulations, which results in different values for certain assets and liabilities for income tax purposes than for financial statement purposes. The amount shown on the Consolidated Balance Sheet as future income taxes represents the net differences between tax values and book carrying values on the operating subsidiaries' Balance Sheet at substantively enacted tax rates. GAAP requires this future tax liability to be recognized in the consolidated financial statements. These future taxes are not expected to result in cash taxes being paid as a result of expected future intercompany royalty and interest deductions at the operating subsidiary level.

As at December 31, future income taxes are comprised of the following:

	2005	2004
Capital and other assets in excess of tax value	$(720.1)	$(518.2)
Net liabilities in excess of tax value	481.2	276.3
Balance at December 31	$(238.9)	$(241.9)

As at December 31, 2005, the following are the estimated balances available for deduction against future taxable income:

	2005
Canadian Oil Sands Trust:	
Canadian Development Expense [1]	$100.1
Equity Issue Costs	$13.2
Canadian Oil Sands Limited and other operating subsidiaries:	
Undepreciated Capital Costs ("UCC") [2]	
Federal UCC	$2,445.1
Provincial UCC	$2,295.3
Scientific Research and Exploration Development	$2.9
Debt Issue Costs	$9.4

[1] Deductible at a declining balance rate of 30 per cent annually

[2] Majority deductible at a declining balance rate of 25 per cent annually as well as an accelerated rate based on the "income from a mine". Approximately $100 million is not available for use until the Stage 3 Upgrader Expansion is put into service.

11) Unitholders' equity

	2005	2004
Unitholders' capital (a)	$2,010.1	$1,911.5
Accumulated earnings	2,575.9	1,744.9
Accumulated unitholder distributions	(1,206.1)	(1,022.2)
Contributed surplus (Note 13(a))	2.7	1.7
	$3,382.6	$2,635.9

a) *Unitholders' capital*

A maximum of 500,000,000 Units have been created for issuance pursuant to the Trust Indenture. The Units represent a beneficial interest in the Trust, share equally in all distributions from the Trust and carry equal voting rights. No conversion or pre-emptive rights, and limited retraction rights are attached to the Units. Units are redeemable at the option of the Unitholder at a price that is the lesser of 90 per cent of the average closing price of the Units on the principal trading market for the previous 10 trading days and the closing market price on the date of tender for redemption, subject to restrictions on the amount to be redeemed each quarter.

During 2005, 1.1 million Units were issued for proceeds of approximately $98.6 million related to the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP") with respect to the distributions paid on February 28, 2005, May 31, 2005, August 31, 2005 and November 30, 2005.

On July 30, 2004 the Trust issued three million Units on a private placement basis at a subscription price of $48 per Unit for total proceeds of $144 million, which were used to finance a portion of the Trust's capital expenditures. During 2004, 1.3 million

Units were issued for proceeds of approximately $59 million related to the DRIP with respect to the distributions paid on February 27, 2004, May 31, 2004, August 31, 2004 and November 30, 2004.

The following table summarizes the Units that have been issued:

Date	Net Proceeds per Unit	Number of Units	Net Proceeds
Balance, January 1, 2004		87.2	$1,708.2
February 27, 2004	$ 45.99	0.3	14.1
May 31, 2004	40.59	0.3	11.2
July 30, 2004	48.00	3.0	144.0
August 31, 2004	46.05	0.3	16.9
November 30, 2004	56.57	0.3	17.1
Balance, December 31, 2004		91.4	$1,911.5
February 28, 2005	$ 75.99	0.3	18.2
May 31, 2005	74.63	0.2	18.6
August 31, 2005	107.69	0.2	21.2
November 30, 2005	106.89	0.4	40.6
Balance, December 31, 2005		92.5	$2,010.1

The Trust has a Unitholder Rights Plan (the "Rights Plan") designed to provide the Trust and its Unitholders with sufficient time to explore and develop alternatives for maximizing Unitholder value if a takeover bid is made for the Trust. One right has been issued and attached to each issued and outstanding Unit. Rights issued under the Rights Plan become exercisable when a person, and any related parties, has acquired or begins a takeover bid to acquire 20 per cent or more of the Units without complying with certain provisions in the Rights Plan. Should such an acquisition or announcement occur, each right entitles the holder, other than the acquiring person, to purchase Units at a 50 per cent discount to the market price.

b) *Premium distribution, distribution reinvestment and optional unit purchase plan*

In January 2002, the Trust received regulatory approval in Canada for the DRIP. Eligible Unitholders may participate in the DRIP for the quarterly distributions payable subject to enrolment and certain other conditions. The DRIP allows eligible Unitholders to direct their distributions to the purchase of additional Units at 95 per cent of the Average Market Price, as defined in the DRIP. The DRIP also provides an alternative whereby eligible Unitholders may, under the premium distribution component, have their distributions invested in new Units and exchanged through the Plan broker for a premium distribution equal to up to 102 per cent of the amount that the other Unitholders would otherwise have received on the distribution date. Under the terms of the DRIP, Unitholders have the option to purchase additional Units for cash at 100 per cent of the Average Market Price if they have participated in either of the premium distribution or distribution reinvestment components of the DRIP.

c) *Net income per unit*

The following table summarizes the Units used in calculating net income per Unit:

	2005	2004
Weighted-average Units outstanding – Basic	91.9	89.0
Effect of options	0.3	0.1
Weighted-average Units outstanding – Diluted	92.2	89.1

12) Stock-based compensation

Canadian Oil Sands' stock-based compensation includes stock option grants for Canadian Oil Sands Limited employees pursuant to a long-term incentive program. In addition, Syncrude Canada has stock-based compensation for which Canadian Oil Sands records its 35.49 per cent working interest.

a) *Canadian Oil Sands' option plans*

As at December 31, 2005, Canadian Oil Sands has 521,692 options issued under a unit option and distribution equivalent plan (the "2002 Plan") and 3,000 options issued under a unit incentive option plan (the"2005 Option Plan"). The initial exercise price is based on the weighted-average price of the Units around the grant date. Subject to customary exceptions relating to early retirement, death or termination, each option has a term of seven years and vests in equal amounts over a three-year period. For options granted after April 2005, the exercise price is reduced to the extent distributions exceed a threshold set by the Board of Directors at the time of the grant.

As at December 31, 2005 the following options were issued:

Date	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2004	0.3	$38.85
Granted in 2004	0.1	$46.64
Outstanding at December 31, 2004	0.4	$40.88
Granted in 2005	0.1	$74.99
Outstanding at December 31, 2005	0.5	$47.64
Exercisable at December 31, 2004	0.1	$38.74
Exercisable at December 31, 2005	0.3	$39.63

The range of exercise prices of the options is $34.73 to $124.93 and the average remaining contractual life of the options outstanding is 4.6 years.

The fair value of each option is estimated on the grant date using an option-pricing model. The weighted-average fair values of the options granted during the various periods and the weighted average assumptions used in their determination are as noted below:

	2005	2004
Risk-free interest rate (%)	3.54	3.63
Expected life (years)	5	5
Expected volatility (%)	22	20
Expected distribution per Unit ($)	2.00	2.00
Fair value per stock option ($)	10.25	6.75

The weighted-average fair value of all options granted during the year is approximately $1.1 million (2004 – $0.7 million).

b) *Syncrude Canada's incentive phantom share units plan*

Syncrude Canada implemented a stock-based compensation plan during 2002 which awarded phantom units to certain employees. The phantom units have value if the composite value of the weighted-average stock price of 70 per cent of Canadian Oil Sands Trust's Units and 30 per cent of various other joint venture owners' public shares at the time of exercise by Syncrude Canada employees exceeds the issue price of the awards. The phantom units vest based on a graded vesting schedule: after the first year of issuance, 50 per cent of the phantom units are exercisable, 25 per cent the following year and the last 25 per cent after year three. When the awards are exercised, they are settled in cash. They expire seven years after the date of issue.

At December 31, 2005 a total of 1.3 million phantom units were outstanding (2004 – 1.3 million), and a total of 323,258 phantom units were exercisable.

In 2005, Canadian Oil Sands recorded approximately $36.3 million in operating expenses related to its 35.49 per cent share of Syncrude Canada's stock-based compensation expense (2004 – $12.1 million).

13) Interest, net

	2005	2004
Interest expense	$106.5	$98.9
Interest income and other	(2.7)	(3.6)
Interest, net	$103.8	$95.3

14) Unitholder distributions

The Consolidated Statements of Unitholder Distributions is provided to assist Unitholders in reconciling funds from operations to Unitholder distributions.

In 2005, distributions were paid to Unitholders on the last business day of the second month following the quarter and were recorded as payable at each quarter end even though they were not declared. Commencing in the fourth quarter of 2005 distributions are recorded in the quarter declared and paid. As a result, the financial statements do not reflect a distribution payable as at December 31, 2005. This change is reflected in the Financing Activities section on the Consolidated Statements of Cash Flows as a decrease in the Unitholder distributions offset by an increase in Change in non-cash working capital requirement. The change in recording Unitholder distributions has no impact on the ultimate distributions declared and paid to the Unitholders or to the timing of such payments, nor does it impact Canadian Oil Sands' net income or funds from operations. Distributions are paid to Unitholders on the last business day of February, May, August and November.

Consolidated statements of Unitholder distributions

For the years ended December 31

($ millions, except per Unit amounts)	2005	2004
Funds from operations	$1,004.8	$575.8
Add (Deduct):		
Capital expenditures	(799.6)	(942.1)
Non-acquisition financing, net [1]	101.5	549.6
Change in non-cash working capital	(118.7)	1.6
Reclamation trust funding	(4.1)	(4.5)
Unitholder distributions	$183.9	$180.4
Unitholder distributions per Unit	$2.00	$2.00

[1] Represents financing to fund Canadian Oil Sands' share of Syncrude's Stage 3 expansion and is a discretionary item

15) Derivative financial instruments

The fair values of financial instruments that are included in the Consolidated Balance Sheet, with the exception of the Senior Notes and medium term notes, approximate their recorded amount due to the short-term nature of those instruments. The fair values of the Senior Notes and medium term notes are as follows:

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
3.95% medium term notes due January 15, 2007	$175.0	$174.5	$175.0	$176.2
Floating rate medium term notes due January 15, 2007	20.0	20.1	20.0	20.0
7.625% Senior Notes due May 15, 2007	81.5	83.8	84.2	91.2
5.75% medium term notes due April 9, 2008	150.0	154.7	150.0	157.8
5.55% medium term notes due June 29, 2009	200.0	207.7	200.0	209.1
4.8% Senior Notes due August 10, 2009	291.5	291.3	300.9	305.7
5.8% Senior Notes due August 15, 2013	349.8	353.7	361.1	372.9
7.9% Senior Notes due September 1, 2021	291.5	344.9	300.9	370.7
8.2% Senior Notes due April 1, 2027	86.2	107.2	89.0	106.4
	$1,645.5	$1,737.9	$1,681.1	$1,810.0

Canadian Oil Sands has entered into currency exchange contracts, interest rate swap agreements, and forward contracts for crude oil to minimize the impact of fluctuations in currency exchange rates, interest rates, and crude oil prices. Unrecognized gains (losses) on these risk management activities and the fair values of the derivative financial instruments as at December 31 were as follows:

	2005		2004	
	Unrecognized Gains (Losses)	Estimated Fair Value	Unrecognized Gains (Losses)	Estimated Fair Value
Currency exchange contracts (a)	$26.2	$25.5	$53.5	$51.8
7.625% Interest rate swap contracts (b)(i)	N/A[1]	2.0	N/A[1]	3.4
3.95% Interest rate swap contracts (b)(ii)	(1.2)	(1.1)	1.5	1.5
Total gains (losses)	$25.0	$26.4	$55.0	$56.7

[1] Effective January 1, 2004, pursuant to AcG-13, the 7.625 per cent interest rate swap does not qualify for hedge accounting, and therefore, the fair value of the swap is recognized on the Consolidated Balance Sheet

a) *Currency exchange contracts*

As at December 31, 2005, Canadian Oil Sands had entered into foreign exchange contracts to sell approximately US$80 million at rates averaging from US$0.669 to US$0.692 over the years 2006 to 2007. As at December 31, 2005, the unrecognized gain on forward foreign currency exchange contracts was $26.2 million (2004 – $53.5 million). In 1996, Canadian Oil Sands entered into currency exchange contracts, fixing the exchange rate on US$1.5 billion at approximately US$0.694 per Canadian dollar with quarterly cash settlements until June 2016. During 1999, Canadian Oil Sands exchanged gains on closing certain forward currency contracts for adjustments to the terms of existing currency contracts. These transactions eliminated currency exchange commitments beyond June 30, 2006, and swapped the underlying value for currency exchange contracts, which reduced the exchange rate to US$0.658 from US$0.694 on the remaining US$466 million of currency commitments.

In 2005, Canadian Oil Sands settled US$100 million of currency exchange contracts at a net gain of $29.4 million, and in 2004 it settled US$92 million in currency exchange contracts at a net gain of $18.7 million. Gains of $23.1 million and $13.0 million in 2005 and 2004, respectively, have been recognized in the income statement as an adjustment to revenues. The remaining portion of these realized gains of $6.3 million and $5.7 million for 2005 and 2004, respectively, relate to the unwound positions and has been deferred. Cumulatively, Canadian Oil Sands has deferred recognition of gains totalling $33.9 million (2004 – $27.6 million) to 2006 and beyond for accounting purposes. The deferred balance is reflected in the Consolidated Balance Sheet under "Deferred currency hedging gains" and is more fully described in Note 9.

The following are the currency hedge positions as of December 31, 2005:

	2006	2007
U.S. dollars hedged ($ millions)	$60.0	$20.0
Average U.S. dollar exchange rate	$0.669	$0.692

b) *Interest rate swap contracts*

i) 7.625 per cent senior notes

Canadian Oil Sands has entered into interest rate swap agreements which effectively convert the fixed rate U.S. dollar payments on the 7.625 per cent Senior Notes to a 5.95 per cent fixed rate U.S. dollar payment for the remaining term of the notes. The effective Canadian dollar interest rates were 6.2 per cent and 5.6 per cent in 2005 and 2004, respectively. Settlements on these contracts have been recorded as other income, rather than as a reduction of interest expense, as these swaps do not qualify as a hedge for accounting purposes.

ii) 3.95 per cent medium term notes

Canadian Oil Sands has entered into interest rate swap agreements which effectively convert the fixed rate Canadian dollar payments on the 3.95 per

cent medium term notes to a floating rate Canadian dollar payment for the remaining term of the notes. The effective interest rates were 2.8 per cent and 2.9 per cent in 2005 and 2004, respectively. These swap contracts qualify as hedges for accounting purposes, and as such, the settlements have been recorded as a reduction to interest expense in the financial statements.

c) *Crude oil hedging contracts*
In 2004, Canadian Oil Sands' revenues were reduced by $274.3 million from crude oil price hedging losses. For the year ending December 31, 2005, there were no crude oil swap positions in place.

d) *Credit risk*
Crude oil sales revenue credit risk is managed by limiting the exposure to customers with a credit rating below investment grade to a maximum of 25 per cent of Canadian Oil Sands' consolidated accounts receivable. The maximum exposure to any one customer is also limited based on the credit rating of that customer. Risk is further mitigated as sales revenue receivables are due and settled in the month following the sale. The use of financial instruments involves a degree of credit risk which Canadian Oil Sands manages through its credit policies and by selecting counterparties of high credit quality.

16) Crown royalties

Under Alberta's generic Oil Sands Royalty, the Crown royalty is calculated as the greater of one per cent of gross revenue after transportation costs or 25 per cent of revenue before hedging, less applicable transportation, operating, non-production and capital costs. In each of 2004 and 2005, the Crown royalty was calculated at one per cent of gross revenue. Canadian Oil Sands expects to begin paying Crown royalties at the full 25 per cent in early 2006 based on its pricing and production forecast at January 25, 2006. As at December 31, 2005, carry forward deductions for royalty purposes were approximately $656 million, $233 million net to Canadian Oil Sands.

17) Commitments and contingencies

a) *Marketing agreement*
Under the terms of the Marketing Services Agreement between COSL and EnCana Corporation, EnCana markets all of the production attributable to Canadian Oil Sands' Working Interest for a fee of $0.05 per barrel, with a minimum monthly fee of $33,333. The marketing fees are included in Canadian Oil Sands' transportation and marketing expense on the Consolidated Statement of Income and Unitholders' Equity. When this agreement expires on June 30, 2006, it will not be renewed and the Trust will utilize an internal marketing department to market its share of Syncrude production.

b) *Natural gas purchase commitments*
Syncrude has entered into multi-year purchase commitments for natural gas deliveries at floating market–related prices. Canadian Oil Sands' 35.49 per cent share of this commitment is for 60.8 million GJ.

c) *Expenditure commitments*
The total estimated project cost of Syncrude's Stage 3 expansion as at February 22, 2006 is $8.4 billion, or approximately $3.0 billion net to Canadian Oil Sands, with an in-service date estimated for mid-2006. Based on expenditures incurred on the Stage 3 project to December 31, 2005, Canadian Oil Sands' 35.49 per cent share of the remaining expenditures is approximately $122 million. Canadian Oil Sands is also committed to remaining costs of approximately $274 million related to its 35.49 per cent share of Syncrude's emissions reduction program as well as $34.4 million related to miscellaneous other capital commitments.

Syncrude has various vendor commitments owing in 2006 for non-capital items of which the more significant purchases total $19.1 million, or $6.8 million net to Canadian Oil Sands.

d) *Desulphurization unit*
Syncrude has entered into an agreement with Marsulex Inc. to utilize flue gas from Coker 8-3 of Stage 3 to manufacture fertilizer. Under the agreement, which began in 2005 and has a minimum term of 15 years, Syncrude is committed to provide the waste stream from the Flue Gas Desulphurization Unit and pay an annual disposal fee. Syncrude receives a portion of the proceeds from the fertilizer sales as a cost recovery. Canadian Oil Sands' share of this commitment, before any recovery, is approximately $3 million per year.

e) *Tax disputes*
For the period prior to 2000, the tax filings for Canadian Oil Sands Limited's predecessors, Canadian Oil Sands Investments Inc. ("COSII") and Athabasca Oil Sands Investments Inc. ("AOSII"), have been assessed and closed. AOSII's 2000 Tax Return was recently assessed by the Canada Revenue Agency ("CRA") and a Notice of Objection will be filed pertaining to the Syncrude Remission Order and other items. It is anticipated that the CRA will reassess COSII on a similar basis and a Notice of Objection will be filed. The Syncrude Remission Order also affects tax filings pertaining to Years 2001 and 2002. While the resolution of this dispute regarding the Syncrude Remission Order impacts the amount of tax pools available

to be carried forward, which are outlined in Note 10 to the consolidated financial statements, it is not expected to result in additional cash taxes being paid. Timing of resolution of this issue and the impact on tax pool balances was not determinable at December 31, 2005.

f) *Pipeline commitments*
Canadian Oil Sands has a long-term agreement with Athabasca Oil Sands Pipeline Limited ("AOSPL") to transport production from the Syncrude plant gate to Edmonton, Alberta. The agreement provides for reimbursement on a cost of service basis, including operating expenses, cash taxes paid, and a return on the depreciated rate base. The agreement commits Canadian Oil Sands to pay its proportionate share of the cost of service whether or not it ships any volumes on the pipeline. The cost of service in 2005, based on Canadian Oil Sands' 35.49 per cent working interest, was $19.2 million (2004 – $18.8 million). The projected cost of service for 2006 is $21.9 million, based on Canadian Oil Sands' 35.49 per cent Working Interest at December 31, 2005, and is expected to remain around $20 million through 2035.

Syncrude has a long-term agreement with TransCanada Pipe Lines Ventures L.P. to transport gas volumes to Syncrude, which expires in 2023. The agreement provides for a minimum delivery obligation of which Canadian Oil Sands' share is $0.7 million per year.

g) *General*
Various suits and claims arising in the ordinary course of business are pending against Syncrude Canada, the operator of the Syncrude Project for the participants. While the ultimate effect of such actions cannot be ascertained at this time, in the opinion of the Trust's management and in consultation with its legal counsel, the liabilities which could reasonably be expected to arise from such actions would not be significant in relation to the operations of Syncrude. Syncrude Canada as well as Canadian Oil Sands and the other Syncrude Joint Venture owners also have claims pending against various parties, the outcomes of which are not yet determinable.

18) Guarantees

Canadian Oil Sands has posted performance standby letters of credit with the Province of Alberta which are renewed annually. The letters of credit guarantee to the Province of Alberta the reclamation obligations of Canadian Oil Sands' interest in future reclamation of the Syncrude mine sites. The Province of Alberta can draw on the letters of credit if Syncrude fails to perform its reclamation duties on its mine sites. The maximum potential amount of payments Canadian Oil Sands may be liable for pursuant to these letters of credit is $42 million. Canadian Oil Sands accrues an asset retirement obligation on its Consolidated Balance Sheet for its share of Syncrude's reclamation costs, which was $147.7 million at December 31, 2005 (2004 – $44.1 million).

19) Supplementary information

a) *Change in non-cash working capital*

	2005	2004
Operating activities		
Accounts receivable	$(51.1)	$(29.5)
Inventories	(30.0)	0.3
Prepaid expenses	0.5	1.7
Accounts payable and accrued liabilities	7.6	45.4
Less: A/P change reclassed to investing	17.2	
	$(55.8)	$17.9
Financing activities		
Unit distribution payable	$45.7	$2.1
Investing activities		
Accounts payable and accrued liabilities	$(17.2)	$(18.4)

STATISTICAL SUMMARY

($ millions, except as indicated)	2005	2004	2003	2002	2001
Revenues, after transportation and marketing expense	1,967	1,352	932	715	663
Operating costs	731	601	515	309	327
Non-production costs	85	48	38	19	18
Crown royalties	20	18	12	7	53
Administration	12	9	9	7	8
Insurance	8	9	7	6	4
Interest, net	104	95	68	39	20
Depreciation, depletion and accretion	198	172	93	54	59
Foreign exchange loss (gain)	(29)	(80)	(135)	(3)	24
Income and Large Corporations Tax	8	(2)	17	6	2
Future income tax recovery	–	(27)	(2)	–	–
Net income	831	509	310	271	148
Per Unit ($)	9.04	5.72	3.89	4.74	2.61
Funds from operations	1,005	576	273	326	227
Per Unit ($)	10.93	6.47	3.43	5.71	4.00
Unitholder distributions	184	180	170	115	156
Per Unit ($)	2.00	2.00	2.00	2.00	2.75
Capital expenditures	800	942	786	403	180
Reserves (billions of SSB bbls, net to COS)					
Proven reserves	1.0	1.0	1.1	0.7	0.7
Proven and probable reserves	1.8	1.8	1.8	N/A	N/A
Resource (includes proven and probable reserves; billions of SSB bbls, net to COS)	3	3	3	2	2
Average daily sales (bbls)	75,994	84,575	66,793	49,806	48,508
Operating netback ($/bbl)					
Average realized sales price	70.91	43.68	38.23	39.35	37.46
Operating costs	26.34	19.40	21.12	16.99	18.48
Crown royalties	0.71	0.58	0.49	0.41	2.97
Netback price	43.86	23.70	16.62	21.95	16.01
Financial ratios					
Net debt to cash flow (times)	1.6	2.9	5.2	1.2	1.2
Net debt to total capitalization (%)	32.8	39.0	40.3	29.0	25.8
Return on average productive capital employed (%)	37.1	21.5	15.2	34.1	20.4
Return on average capital employed (%)	19.4	12.7	9.9	26.1	19.3
Return on average Unitholders' equity (%)	27.6	21.4	20.2	31.3	18.4
Number of Units outstanding (in millions)	92.5	91.4	87.2	57.7	56.8
$/Unit prices*					
High	143.00	68.19	45.70	44.85	41.95
Low	62.10	40.25	32.26	33.28	29.25
Close	126.00	67.61	45.69	38.05	38.50
Trading volume (thousands of Units)*	71,371	77,832	45,417	33,296	20,360

*Data prior to the July 5, 2001, merger date represents Athabasca Oil Sands Trust, the surviving entity

UNITHOLDER INFORMATION

Officers

C. E. (Chuck) Shultz
Chairman of the Board

Marcel R. Coutu
President and Chief Executive Officer

Allen R. Hagerman, FCA
Chief Financial Officer

Trevor R. Roberts
Chief Operations Officer

Trudy M. Curran
General Counsel and Corporate Secretary

Ryan M. Kubik
Treasurer/Acting Controller

Laureen C. DuBois
Controller (on maternity leave)

Board of Directors

C. E. (Chuck) Shultz [2]
(Chairman of the Board)
Chairman and Chief Executive Officer
Dauntless Energy Inc.
Calgary, Alberta

Marcel R. Coutu
President and Chief Executive Officer
Canadian Oil Sands Limited

E. Susan Evans, Q.C. [1, 2]
Calgary, Alberta

The Right Honourable Donald F. Mazankowski [1]
Edmonton, Alberta

Wayne M. Newhouse [2]
Calgary, Alberta

Walter B. O'Donoghue, Q.C. [1]
Counsel, Bennett Jones LLP
Calgary, Alberta

Wesley R. Twiss [2]
Calgary, Alberta

John B. Zaozirny, Q.C. [1]
Counsel, McCarthy Tétrault LLP
Calgary, Alberta

[1] Member of the Corporate Governance and Compensation Committee

[2] Member of the Audit Committee

Units Listed

Toronto Stock Exchange: COS.UN

Registrar and Transfer Agent

Computershare Trust Company of Canada, with offices in Vancouver, Calgary, Toronto, Montreal and Halifax, is the registrar and Transfer Agent for Canadian Oil Sands Trust. Computershare is also Trustee of the Trust.

Computershare Trust Company of Canada
710, 530 - 8th Avenue SW
Calgary, Alberta, T2P 3S8
Attention: Corporate Trust Department
Telephone: 1 (800) 564-6253
Fax: (403) 267-6598
E-mail: service@computershare.com

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

Independent Qualified Reserve Evaluators

GLJ Petroleum Consultants
Calgary, Alberta

Canadian Oil Sands Limited

2500 First Canadian Centre
350 - 7th Avenue SW
Calgary, Alberta T2P 3N9
Telephone: (403) 218-6200
Fax: (403) 218-6201

Investor and Media Relations Contact

Siren Fisekci
Telephone: (403) 218-6220
Fax: (403) 218-6201
E-mail: investor_relations@cos-trust.com

Website: www.cos-trust.com

Canadian Oil Sands' website contains a variety of investor information including:

- Current Unit Price
- Annual and Interim Reports
- New Releases
- Investor Presentations
- Distribution Information
- Syncrude Project Information
- Tax Information

DRIP

For more information on, or to enroll in the Trust's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP) please contact investor relations at (403) 218-6220 or Computershare Trust Company of Canada at 1 (800) 564-6253.

GLOSSARY

Bitumen The molasses-like substance that comprises up to 18 per cent of oil sands. Bitumen, in its raw state, is black, asphalt-like oil. It requires upgrading or blending to make it transportable by pipeline and usable by conventional refineries.

Carbon dioxide (CO_2) A non-toxic gas produced from decaying materials, respiration of plant and animal life, and combustion of organic matter, including fossil fuels; carbon dioxide is the most common greenhouse gas produced by human activities.

Cokers Vessels in which bitumen is cracked into its fractions and from which coke is withdrawn in the process of converting bitumen to upgraded crude oil.

Conventional oil Petroleum found in liquid form, flowing naturally, or capable of being pumped without further processing or dilution.

Debottleneck Debottlenecking systematically removes plant capacity limitations through modifications of existing facilities and/or addition of capital facilities. Debottlenecking commonly provides a 10-20 per cent capacity improvement versus a major capital intensive expansion.

Diesel cetane count A quality specification important in the production of diesel fuels.

Dragline A large machine that digs oil sand from the mine pit and piles it into windrows.

Extraction The process of separating bitumen from oil sand.

Feedstocks Raw material supplied to refinery, oil sands upgrader, or petrochemical plant

Fluid coking A major part of the upgrading process whereby high temperatures in a coker break down the complex bitumen molecules, rejects carbon and causes bitumen molecules to reformulate into lighter fractions that become the main ingredients in upgraded crude oil

Flue gas scrubber / desulphurizer Equipment that removes sulphur dioxide and other emissions.

Fluid coking A major part of the upgrading process whereby high temperatures in a coker remove carbon and cause bitumen molecules to reformulate into lighter products that become the main ingredients in upgraded crude oil.

Greenhouse gases Any of various gases that contribute to the greenhouse effect.

Gross overriding royalty (GORR) Six percent gross overriding royalty on revenues from the working interest in respect of certain leases included in the Syncrude project.

Netback Average realized selling price, after hedging, less operating costs and Crown royalties.

Oil sand(s) A composition of sand, bitumen, mineral rich clays and water.

Alberta oil sand(s) deposits The four deposits, Athabasca, Peace River, Cold Lake and Wabasca, have total resource in place estimated at 1.7 trillion to 2.5 trillion barrels. The Athabasca Oil Sands deposit, Alberta's largest and most accessible source of bitumen, contains more than one trillion barrels of bitumen over an area encompassing more than 30,000 square kilometres.

Oil sand(s) lease A long-term agreement with the provincial government which permits the leaseholder to extract bitumen, other metals and minerals contained in the oil sands in the specified lease area.

Ore grade The percentage of bitumen by weight in the oil sands.

Overburden A mining term related to the thickness of material above oil sands deposits.

Strip ratio The ratio of waste (overburden material that covers mineable ore) to ore; used to define the quality of an oil sands ore body.

Sulphur dioxide (SO_2) A compound of sulphur and oxygen produced by burning sulphur.

Synbit Typically, a synbit blend is a ~50/50 mix of bitumen and synthetic crude oil.

Syncrude 21 A multi-staged expansion plan Syncrude embarked in 1996, which is anticipated to more than double production of a higher-quality oil at lower operating costs.

Syncrude Sweet Blend (SSB) A 100 per cent upgraded, high-quality product with 31° to 33° API, low sulphur (0.1 per cent to 0.2 per cent), low residuals and excellent low-temperature pour qualities.

Syncrude Sweet Premium (SSP) A new product that is expected to be introduced with the startup of Syncrude's Stage 3 project; the quality of the distillate cuts will improve with lower sulphur and nitrogen levels as well as higher diesel cetane numbers and kerosene smoke points.

Synthetic crude oil A high-quality product resulting from the mining, extraction and upgrading of thick, tar-like bitumen.

Tailings A combination of water, sand, silt and fine clay particles that is a by-product of removing bitumen from oil sand.

Total volume to bitumen in place (TV/BIP) The total amount of ore plus overburden volume to total bitumen in place.

Turnaround A regular event essential for good maintenance of the mining, producing and upgrading facilities. A turnaround may reduce production but does not usually halt it entirely as the various operating units are duplicated.

Upgrading The conversion of heavy bitumen into a lighter crude oil by increasing the ratio of hydrogen to carbon, either by removing carbon (coking) or adding hydrogen (hydroprocessing).

RATIOS

Net debt to cash flow Net debt divided by funds from operations.

Net debt to total capitalization Net debt divided by net debt plus Unitholders' equity.

Return on average Unitholders' equity Net income divided by average Unitholders' equity.

Return on average capital employed Net income before net interest expense, future income tax, and foreign exchange gains/losses divided by average capital employed.

Return on average productive capital employed Net income before net interest expense, future income tax, and foreign exchange gains/losses divided by average productive capital employed, which excludes major projects not yet in use.

ABBREVIATIONS

American Petroleum Institute specific gravity: API
barrel(s): bbl, bbls
barrel(s)/day: bbl/d, bbls/d
carbon dioxide: CO_2
gigajoule: GJ
sulphur dioxide: SO_2
Syncrude Sweet Blend: SSB
Syncrude Sweet Premium: SSP
West Texas Intermediate: WTI

NOTICE OF MEETING

Canadian Oil Sands' 2006 Annual General and Special Meeting will be held in the Chambers Room, First Canadian Centre, 350 – 7 Avenue SW, Calgary, Alberta, Canada on Tuesday, April 25, 2006 at 2:30 pm (MDT). All Unitholders are invited to attend, and those unable to do so are requested to sign and return the form of proxy mailed with this report to ensure representation at the meeting.

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Bitumen is thermally cracked into hydrocarbon gases, naphtha and gas oils. The naphtha and gas oil are treated and blended into a high-quality, light sweet crude oil called Syncrude Sweet Blend™.

CANADIAN OIL SANDS TRUST IS A TEAM OF 14 PEOPLE — RELATIVELY SMALL FOR AN ENTITY THAT IS THE LARGEST ENERGY TRUST IN CANADA WITH A MARKET CAPITALIZATION OF CLOSE TO $12 BILLION AS AT DECEMBER 31, 2005 AND THE LARGEST SINGLE INVESTMENT IN THE SYNCRUDE PROJECT. CANADIAN OIL SANDS MANAGES THIS INVESTMENT ON BEHALF OF SEVERAL THOUSAND UNITHOLDERS WITH A TEAM THAT CONSISTS OF:

ALLEN HAGERMAN, ASWIN PATEL, CATHY JONES, DAVID SIRRS, KATRINA RUPERT, LAUREEN DUBOIS, MARCEL COUTU, MARIE FENEZ, MARLENE ASHTON-TEIGLAND, RYAN KUBIK, SCOTT ARNOLD, SIREN FISEKCI, TREVOR ROBERTS, TRUDY CURRAN

CANADIAN OIL SANDS LIMITED
2500, 350 – 7TH AVENUE SW
CALGARY ALBERTA, T2P 3N9
TELEPHONE: (403) 218-6200
WWW.COS-TRUST.COM
TSX: COS.UN

Canadian Oil Sands